

THE ULTIMATE SOCIAL BUSINESS MODEL

Why Now Is Prime Time for Direct Selling



From March 2009 to May 2011, the top 7 publicly traded direct selling companies averaged a 268 percent increase in stock price.

In 2010, direct selling companies generated over \$125 billion in revenue in 150 countries through more than 75 million men and women who are changing lives serving others. **This is the story of direct selling.**

INSIDE: DSN Global 100 Listing of the Top Direct Selling Companies in the World

Cover Story

The Ultimate Social Business Model

by Katherine Ponder



Direct selling is the *original* social networking business. Long before we even knew what a computer was, people were getting together for fun, socializing and shopping. Add in technological power and globalization, and you've got a winning formula.

Model Advantages

Whether a company is working in a mature market or an emerging one, the direct selling model has many advantages. In mature markets, the existing infrastructure and high technology saturation

make interacting with customers extremely easy. Advancements in mobile devices and apps, as well as in social media tools, simply increase the reach of this socially driven model. Far-flung friends and family are now easily included in a tight circle, and new friends across the nation and world are made through common interests.

In an emerging market such as China, having scores of salespeople working directly with friends and family to make the personal pitch just reaches back in

time. The direct selling model is over 150 years old; it has never needed technology to be successful. A social network and a good product is all that is necessary. Additionally, the social connections put you far ahead of the competitors who either can't get product on the shelves or are pushed into obscurity. And those competitors don't have a constant line straight to their customers to gauge demand and feedback.

Products and services delivered directly to customers through personalized presentations that are

often educational, entertaining and certainly social have enabled direct selling to thrive for decades even through recessions, including this latest one. The effect holds true no matter what the category as direct selling companies represent virtually all goods and services customers want and need. The *DSN Global 100* list of the top revenue-grossing direct selling companies in the world represents \$66 billion in revenue for 2010, proof that this social business model has economic power.

The products and services sold by these companies range across such diverse categories as cosmetics, financial planning services, home decorating, home improvement and solutions, energy services, personal-care, health and wellness, apparel and accessories, legal services and fine wines. Each company on the list had to have reached \$80 million in 2010 revenue just to be listed.

Analysts have noticed some of the advantages of direct selling. Doug Lane is Managing Director at Jefferies, a full-service securities and investment banking firm that was recently ranked No. 1 in U.S. stock picking by the *Financial Times* / StarMine Research Analysis. He thinks that direct selling companies are successful because they have "strong top-line growth driven by outsized exposure to the rapidly growing emerging markets; relatively high gross margins to buffer against the recent dramatic rise in commodity cost inflation; and ownership of the distribution channel and the tendency towards premium priced products that enable the direct sellers' pricing power over traditional retail." Lane goes on to explain that direct selling companies often have under-leveraged balance sheets and large free cash flows, which "tend to put the direct selling business model on particularly strong financial footing."

Jim Cramer, host of investment show "Mad Money," has caught on as well. "The direct selling model is going great guns," he said, noting it could be the best way to sell goods in the Third World.

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Prime Time for Direct Selling

Attracting Attention and Investors

Within the DSN Global 100 list, the top 10 companies contributed \$39 billion to the global economy in 2010. The company at the top of this list—Avon, the 125-year old brand known in virtually every household, which generated \$10.9 billion of that number—is publicly held, as are five additional companies on the top 10 list. Amway, privately held and another household name, secured the No. 2 spot on the list at \$9.2 billion in sales. Other familiar names on the top 10 list include Herbalife (public), Mary Kay (private) and Tupperware (public). Vorwerk (private) is a household name in Europe and is the parent company of United States company JAFRA. The list rounds out with additional companies Natura (public), Oriflame (public), Forever Living Products (private) and Nu Skin (public).

Clearly, the economic impact of direct selling companies for the United States and for the

world simply cannot be overlooked or swept under the rug. Scott Van Winkle, CFA, is a Research Analyst at Canaccord Genuity, known for serving institutional and corporate clients through investment banking, research, sales and trading services. Van Winkle covers direct sellers Herbalife, Nu Skin Enterprises, USANA Health Sciences and Medifast. He says, “I think there is finally broad confidence in the direct selling model in the private equity community.”

Interest overall does appear to be growing. Financial advisors and investors both are seeing direct selling companies with new eyes, focusing on the efficient business model, rapid growth, and generally low on-going capital investment after the initial surge. Van Winkle says, “I don’t go a week now without getting a phone call from a private equity firm looking at a direct selling asset, and that was just nonexistent 5 years ago.”

It appears that wise investors are getting in *now*. Sequoia Capital investors bought into jewelry and accessories direct seller

Public Companies: The Big 7

The direct selling industry’s top seven public companies, based on *Direct Selling News’* Global 100 ranking, accounted for \$23.9 billion in revenue for 2010.



Avon Products Inc.
Country: USA
2010 Rank: 1
2010 Revenue: \$10.9 billion

Avon is the founder of modern direct selling and the acknowledged world leader in cosmetics, fragrances and toiletries. Avon’s well-known product lines include Avon Color, Anew, Skin So Soft™, Advance Techniques Hair Care, Avon Naturals and mark™.

Markets: 100+
Distributors: 6.5 million
Employees: 42,000
Headquarters: New York, N.Y.
CEO: Andrea Jung
Year Founded: 1886
Stock Symbol: AVP—NYSE



Natura Cosmeticos SA
Country: Brazil
2010 Rank: 3
2010 Revenue: \$3 billion

Natura is a cosmetics giant with more than 900 products. The company operates in Argentina, Chile, Peru, Mexico, France, Venezuela and Colombia. Corporate social responsibility is one of its core emphases.

Markets: 7
Distributors: 1 million
Employees: 5,000+
Headquarters: São Paulo, Brazil
CEO: Alessandro G. Carlucci
Year Founded: 1969
Stock Symbol: NATU3.SA—São Paulo



Herbalife Ltd.
Country: USA
2010 Rank: 5
2010 Revenue: \$2.7 billion

Herbalife sells nutritional supplements and weight-management and personal-care products. Its products have been developed by scientists, physicians and nutrition experts, including Nobel laureate in medicine Louis Ignarro, Ph.D.

Markets: 75
Distributors: 2.1 million
Employees: 4,300
Headquarters: Los Angeles, Calif.
CEO: Michael O. Johnson
Year Founded: 1980
Stock Symbol: HLF—NYSE

Stella & Dot for \$37 million (10 percent of ownership) last January, certain that it had pursued a winner. Sequoia Capital is a Silicon Valley venture capitalization firm that is estimated to control as much as 14 percent of the value on NASDAQ. “Sequoia rarely sees a business built so strong, with such little capital,” says Sequoia partner Alfred Lin, who more recently added: “We wanted to become business partners with Stella & Dot because it was a great business run by a very special founder and entrepreneur, Jessica Herrin.”

Blyth, Inc. also found value in direct sellers PartyLite and ViSalus. “PartyLite was doing \$7 million in sales when Blyth acquired it

in 1990, and it’s over \$500 million in annual revenue today,” recounts Robert B. Goergen Jr., President of Blyth. “ViSalus, a relatively young company, is currently experiencing rapid sales growth. We embrace a portfolio approach, with non-competitive products and companies in different stages of development across multiple geographies.” Indeed, PartyLite sells premium candles and home fragrance products, and ViSalus sells weight management and health products. Blyth’s strategy for investing in various direct selling companies has proven very successful for them.

Traditionally, private equity firms make a material investment into a business and

within 5 years either take it public or sell it. Investment in direct selling companies has brought about a new exit strategy for some private equity firms, according to Van Winkle. He says, “We’ve seen direct selling companies turn around and take out their private equity investors with cash flow. That’s a whole new model for private equity—that the asset they’ve acquired could ultimately buy itself out.”

Van Winkle and others know the time is right. Many of the innovative investors are reaping rewards for acting upon their confidence in the direct selling industry. Others are just now seeing the value, but the opportunity is still available to be part of this successful sales model. ■

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Tupperware Brands Corp.
Country: USA
2010 Rank: 7
2010 Revenue: \$2.3 billion

Tupperware is a global direct seller of innovative premium products, including design-centric preparation, storage and serving solutions for the kitchen and home through the Tupperware brand, and beauty and personal-care products through Armand Dupree, Avroy Shlain, BeautiControl, Fuller, NaturCare, Nutrimerics and Nuvo.

Markets: Nearly 100
Distributors: 2.6 million
Employees: 13,500
Headquarters: Orlando, Fla.
CEO: Rick Goings
Year Founded: 1946
Stock Symbol: TUP—NYSE



Oriflame Cosmetics S.A.
Country: Sweden
2010 Rank: 8
2010 Revenue: \$2.2 billion

Oriflame is a beauty company offering cosmetics, fragrances and personal-care, skin-care, hair-care and wellness products. The company operates in 62 countries and is the market leader in more than half. Oriflame has a presence in Mexico, Central America, South America, Europe, Asia and Africa.

Markets: 62
Distributors: 3.5 million
Employees: 8,000
Headquarters: Luxembourg, Luxembourg
CEO: Magnus Brännström
Year Founded: 1967
Stock Symbol: ORI-SDB—Stockholm



Nu Skin Enterprises Inc.
Country: USA
2010 Rank: 10
2010 Revenue: \$1.5 billion

Nu Skin Enterprises Inc. is a global direct selling company operating in 48 international markets throughout the Americas, Europe and the Asia-Pacific region. Going far beyond cosmetics, toiletries and fragrances, Nu Skin sells more than 200 products through three distinct brands: Nu Skin, Pharmanex and Big Planet.

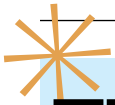
Markets: 51
Distributors: 800,000
Employees: 1,200
Headquarters: Provo, Utah
CEO: Truman Hunt
Year Founded: 1984
Stock Symbol: NUS—NYSE



Primerica Inc.
Country: USA
2010 Rank: 11
2010 Revenue: \$1.3 billion

Primerica provides financial products and services, including term life insurance, mutual funds, variable annuities, loans, long-term care insurance and legal services to 6 million clients, primarily middle-class individuals and families.

Markets: 5
Distributors: 100,000
Employees: 2,000
Headquarters: Duluth, Ga.
CEOs: John Addison and Rick Williams
Year Founded: 1977
Stock Symbol: PRI—NYSE



The Heart of Direct Selling: The Home

by Barbara Seale
& John Fleming

What's the ideal home-based business? More than 16 million Americans think it's direct selling.

They represent one of the hundreds of U.S. direct selling businesses, and together they generated \$28.3 billion in annual sales last year. While a few direct sellers work at their businesses full time, about 90 percent work part time to supplement their income. Some 80 percent of direct sellers are women, and almost all say they appreciate the schedule flexibility and low cost of starting their business. Customized technology lets them make their business portable and convenient. They can show high-quality products or share their business opportunity at a home party, but it's just as easy to do at a coffee shop or restaurant.

Direct selling companies, sometimes referred to as network marketing companies, are gaining the attention of some of the world's foremost financial experts, including Suze Orman, noted author, television personality and consultant to Avon Products Inc.; Robert Kiyosaki, best-selling author of the *Rich Dad Poor Dad* series, who has sold more books on financial guidance than any author in history; and David Bach, *New York Times* best-selling author, to name just a few. All have responded positively to the significance of the direct selling business model.

"The beauty of the direct selling business opportunity is that it's all done for you," Bach says. "There isn't any real startup time. You don't have to create a business plan. You don't have to create a product. The only thing you need to do is find a reputable company—one that you can trust—that offers a product or service that you believe in and can get passionate about."

A Growing Trend

What is most appealing about becoming a direct seller is that anyone can do it. Today's technology offers many viable options for working from home, not to mention the comfort and enjoyment of not having to go to a place of employment at a certain time each day. The essential activities related to building the business are usually conducted in the home. The party plan approach to selling is found to be very easy to learn—and to enjoy. Meeting prospective customers and potential direct sellers at a coffee shop is far more relaxing than the traditional business conference room.



As the ultimate equal-opportunity solution, a direct selling home-based business may represent the purest form of equality through free enterprise. That's one of the most striking aspects of direct selling as a business model: It involves men and women from all walks of life, all ages, and all racial, ethnic and socioeconomic groups. According to the Direct Selling Association, the industry's trade organization, 24 percent of direct sellers have a high school diploma or less education; however, 35 percent are college graduates and 1 in 12 has a postgraduate degree. These statistics are expected to possibly change dramatically as technology redefines the way direct sellers conduct their businesses and more and more Americans look for easier ways to attempt entrepreneurship by starting their own business.

The Primary Benefit: Work-Life Balance

A home-based business is a valuable asset when it is developed successfully. Since there is no commute to work, one's business can be managed to accommodate one's working hours, family life and personal interests. This is one of the

primary benefits that have historically attracted women to the business model. Today, there are millions of men and women who seek a business opportunity that offers the ultimate work-life balancing potential.

Around the world, millions of families use earnings from their direct selling businesses to make their monthly car or mortgage payments, take family vacations, send their children to private schools or purchase a few luxuries. For these individuals, the money earned each month, regardless of the amount, makes a big difference. And the big benefit? It's that they are doing it on their terms and in accordance to the time they are willing to invest.

The Benefit of Owning Your Own Business

Some direct sellers and network marketers (all are independent business owners) choose to view their business as an opportunity with unlimited earning potential. They realize they can increase their chances of achieving financial freedom by building a strong business. This requires time and energy to attract customers, sell their products and build a sales organization of others who

are recruited, coached and supported in their efforts to also build successful businesses. By treating the opportunity as a true business, these direct sellers have the potential to earn significant profits from their investment of time.

The Benefit of Personal Development

Personal development is a phrase often used when direct selling companies describe the benefits associated with the training they offer. Direct sellers tend to rave about the support they receive regardless of whether they are in the business for a new lifetime career or just a few months to earn some needed extra income. Some have been known to report that as a result of the training offered by the direct selling company they chose—usually offered free or at minimal cost—they were able to step out of their comfort zones, engage in conversations more effectively, speak in front of groups of people, manage time and money more effectively and, ultimately, enrich their lives through the experience.

The Ideal Business

While every company has its unique traits, the entire direct selling way of doing business shares common threads of empowering men and women to dream, to reach beyond what they thought to be possible, and to be supported in a very strong manner. Direct selling is a great example of how the free enterprise system can be engaged without the traditional risks associated with a brick-and-mortar business model. ■

Top 5 Reasons for Considering a Direct Selling Business

Be Your Own Boss—You are in complete control of how you invest your time and how you go about building your business.

Save Time and Money—As an independent business owner, you purchase the products you love at discounts and you operate all activities from your home.

Expand Your Circle of Friends—Direct selling business opportunities are based on building relationships. When building a direct selling business, customers and other team members appear to quickly become important and rewarding aspects to one's life.

Be Recognized and Rewarded for Achievement—It's not every day that an adult receives praise for an effort well done, but direct selling companies recognize and reward their independent business owners through bonuses, trips and prizes. This is an essential component to the business model.

Build Income—The direct selling compensation model offered by most companies allows the building of organizations that have the potential to create incomes beyond those earned from the personal selling/servicing efforts of the direct seller.



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