

# DIRECT STRATEGY

## RECESSION MAKES DIRECT SELLING MARKET A VIABLE BUSINESS OPPORTUNITY

Malvika Chandan

**T**ALKING to representatives of Amway India, a wholly-owned subsidiary of the 8.2-billion dollar direct selling major, Amway Corporation, is refreshing at a time when many companies are announcing layoffs, reducing manufacturing and inventory numbers, and projecting flat growth at best for the year ahead.

If you have heard any of the company's top executives recently, you'd have heard them talking of registering "the highest growth in percentage terms in 2009". It has lined up at least six new products that will be launched during the course of the year when it hopes to increase its consumer touch points to 150 from the current 122. The accent this year will be on the nutrition and the beauty products segments that account for almost 50% of the company's revenues.

The aim, says the company, which kicked off its India operations with an investment of Rs 26 crore and six products in May 1998, is to see India firmly ensconced among its top two or three markets from

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But what is interesting is the way Amway tweaked both its portfolio and its pricing strategy to ensure that the value-conscious Indian consumer took to its products like moths to a flame. Indeed, getting the pricing right was key to the company's growth in this country. Amway's global model is based on fixed quantity, variable price. In India, it has opted for variable quantity, fixed price, the company

Photo collage: SAGHANA SAXENA

has said in an earlier interview. It has even launched sachets to encourage trials. Pinckney claims that Amway design and equipment standards in India match those in the US, though sample test runs are still carried out in the US.

Today, the quality of Amway products made in India is hailed globally—they have found markets outside the country's borders, establishing India as an export hub to service some of the neighbouring markets. All this reiterates something the company says it always knew—that it is the brand that needs to adapt to a market, and not the other way round.

The Amway brass concedes that India is a very small fish in the global direct selling pond, which stands at a staggering \$110 billion. But then, this is both an opportunity and a challenge. Opportunity because, as Pinckney points out, it is precisely in this kind of times that people take to direct selling as a new business opportunity due to its low entry barriers and the low attendant risks. And challenge because the company has to work at driving home the point that its line-up comprises both super premium products from its global portfolio and the mass-end products that have been developed to address the price-conscious consumer. Amway's coconut hair-oil is a case in point. It was developed for India and is priced on par with Marico's Parachute hair oil.

Fighting the likes of Avon, Modicare, Herbalife and Tupperware, Amway India has a wide portfolio of 110 product lines—including home care (14 products), nutrition and wellness (26), cosmetics (50), personal care (14) and six great value products developed for India, and priced on par with local leaders. Pinckney says, "We do have a range in pricing, and our Attitude cosmetics have a starting price of just Rs 99 for its lipsticks".

Now, to cope with the surge in demand that Amway products expect, the company plans to ramp up the capacity of its Baddi (Himachal Pradesh) plant this year by adding more manufacturing lines at an investment of around Rs 40 crore.

# Stop, look, grow

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The Baddi plant manufactures 80% of Amway's products in India, while the remaining is made at six contract manufacturing facilities. For the time being, Amway will throw its brand-building muscle behind the Nutrilite and Artestry brands in India.

Traditionally, direct selling companies do not use advertising in a big way; but Amway, a strong believer in brand building, has put aside Rs 16 crore this year (up from Rs 12 crore in 2008) for communication on television, print and out of home advertising. "The purpose of our advertising is to build corporate brand awareness so that the distributor's job is made easier," says Pinckney. "The television campaign that we started last year will run till 2010."

Pinckney adds, "We will not do deal-type promotions, but our value promotions will be ongoing. Last year a value addition promotion for our most popular health product led to 150% increase in sales. We increased the size of our protein powder pouches to 700 gm from 500 gm and sold it for the same price."

It is also looking at new categories for growth. Energy drinks and bars, for instance, have been identified as a thrust area under the health category. The US, for example, has 40 energy drink brands, against lone ranger Red Bull in India.

Amway is trying to shake up the category with its new fruit flavoured energy drinks. The company also introduces energy bars in the market under a joint venture with General Mills that has the manufacturing expertise, with Amway backing up with its distribu-

## The Amway way...



tion muscle. And its distribution muscle is awesome—on its rolls in India are 4.5 lakh of the approximately 15 lakh distributors or business owners as Amway calls them.

While it has made steady progress over the years, Amway would like to see the regulatory environment to

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**WILLIAM SPINKNEY**  
CEO and managing director, Amway India

ease out for the industry to realise its true potential. The company has been lobbying with others including the Indian Direct Selling Association (IDSA) for more protective consumer legislation that will also ensure the industry does not get a bad name.

▶ Amway India is a wholly-owned subsidiary of 8.2-bn Amway Corporation, Ada, Michigan, USA

▶ It recorded a sales turnover of over Rs 1,128 crore in 2008

▶ Established in 1995, Amway India started commercial operations in May 1998. It is headquartered in New Delhi

▶ Amway has invested in excess of \$35 million (Rs 151 crore) in India; of this \$6 million (Rs 26 crore) is in the form of FDI

▶ Amway India has 400 full time employees and has generated indirect employment for 1,650 persons at all the contract manufacturer locations

▶ The company has over 4.5 lakh independent Amway business owners

Direct selling companies such as Skybiz, Goldquest and QuestNet have had numerous run-ins with the police for not giving their agents the commissions promised or taking advances without giving the requisite stock. There are instances of companies that have simply changed their names and moved to another cities to restart their businesses.

In the meantime, IDSA continues to pursue the Department of Industrial Policy and Promotion under the Ministry of Commerce to pass a separate law to regulate direct sales. David Stanley, chairman of IDSA, says, "Many direct selling companies in the US and Europe that are waiting to come to India would like to see laws regulating schemes and laws protecting consumer interest."

Regulatory issues aside, Amway sees the direct selling market opening up as consumers start to see the difference between direct selling and door-to-door sales, and that between the long haulers and the fly-by-night operators.