

# Role of Direct Selling Guidelines 2016 in Relation with MLM Industry in India

Vaishali Dwivedi<sup>1</sup>, Dr. Preeti Singh<sup>2</sup>

<sup>1</sup>Research Scholar, International Institute of Professional Studies, Devi Ahilya Vishwa Vidhyalaya, Indore, India

<sup>2</sup>Head of Department, School of Commerce, Devi Ahilya Vishwa Vidhyalaya, Indore, India

**Abstract:** *The powerful appearance of Direct Selling in the Indian market is remarked more than mere a substitute marketing and allocation medium. At present Direct Selling is a distinct mode of business because of its revolutionary way of connecting common people as an important member of their approach to develop the marketing network. On the other hand the Direct Selling industry has seen low participation of native companies due to the undeveloped governing prospect in the industry and the existing players were facing a mistrust in the eyes of the consumers of being a fraud pyramid or ponzi scheme. The Direct Selling Guidelines was the need of the hour to provide insights about the genuine Direct Selling Companies. It will help enhance the faith of the financier and capitalist in the Industry as well as draw attention of the foreign companies also. Uptill now these guidelines are adopted by many states to safeguard the interest of their Direct Selling Companies.*

**Keywords:** Direct Selling Guidelines, Multi-level Marketing, Direct Selling Industry

## 1. Introduction

With the growing income, rapid urbanization and due to the largest youth population of our country, there exist the demand for the effective and efficient channel of distribution. Direct selling is one such business model which meet the demands of the today's generation. However, all the associates and contributors of the Direct selling industry are wrangled with various problems such as incidence of fraudulent acts, governmental policies with a big question mark, and moving out of some companies etc., which causes a reduction of trust in customers eye and displays them as suspicious business. That's why the MLM business people have conveyed a strong need for the government support to build an environment of trust and conviction for customers as well as the business organizations. An ample number of researches have been administered on Direct Selling Industry about all its aspects but no work is done to explain the emergence and impact of Direct Selling Guidelines on the Indian MLM Industry. For that reason present study is an effort to examine the problems faced by the distributors in the absence of a regulatory authority in the Industry and how industry has changed after the commencement of Direct Selling Guidelines by the Department of Consumer Affairs, Government of India. Its input can be depicted to the chief programs started by the government of India in the last two years such as Skill India, Make in India, Digital India, Women Empowerment and Startup India.

## 2. Literature Review

According to the research report 2016 by FICCI(Federation of Indian Chambers of Commerce and Industry), Direct Selling is one of the most rapid developing business in the country. However a large number of small sized companies are functional, the country is still expecting large In-house players to participate due to the late introduction of regulatory guidelines. After all the Direct Selling Guidelines 2016 announced in September 2016 are the indication of

acknowledgement and safety of Direct Selling entities. With the correct regulatory actions, the Industry may reach INR645 billion in 2025. The appearance of Direct Selling Guidelines and their consecutive anticipated acceptance are definite to chase the progress of the Industry. It will also help ministry, inspecting groups and customers to make a distinction between authentic & genuine businesses and pyramid or ponzi schemes.

William W. Keep, Peter J. Vander Nat, (2014) analysed the rising of direct selling-from a sales channel of different products like cosmetics, radios and automobiles to Multilevel Marketing(MLM), an industry seems to have depended on selling to itself. As some MLM companies are found to be illegal pyramid schemes, they have analysed the coincide between the legitimate MLM organizations and unethical pyramid schemes. MLM works on the dual proposition, First, selling through a matrix of distributors and second, appointing new distributors at the same time. In order to get succeed, the MLM model open the door for development of pyramid schemes fraud. But their research underline the successful attempt to control the type of scam. Their research states that the internal utilization of products in MLM model is very common and to rail against this aspect is misplaced.

Daryl Koehn (2001) argues that MLM pose some unethical issues which are not easy to resolved. She examines that the pyramid scheme was the top most occurring fraud in USA in 1996. She addressed to some problems which can easily degrade a MLM into swindling and unlawful pyramid schemes like posing internal pressure on distributors to purchase more products to qualify certain level or to be an active member. Secondly, if the company is charging a high fee for joining kit and for promotional tools and sales kit also then it must be unethical. She concluded that the MLM business is not easy to get succeeded and requires a lot of downline recruitments who can turn recruit others and do some real selling of products. But the dilemma is that it is not easy to do this ethically and the idea of being wealthy

overnight compel the distributors to follow recruitment-centered pyramid schemes. This calls for some regulatory guidelines to be followed by Direct selling Companies to prevent unlawful pyramid schemes.

As per the article in Business World by Arindam Goswami, Direct Selling Industry has shown tremendous growth in the last two decades in India but still it is not an approved area for the bureaucrats and regulators in India. The general ignorance towards the Industry is due to the absence of any governing authority in the previous years, the mistaken belief of people for Direct Selling Industry as fraud Pyramid Schemes and disbelief & doubt of people on the compensation plan of Direct Selling Companies. The governing disputes of the Industry is very much resolved after the announcement of Direct Selling Guidelines in 2016 by Government of India. Many states have accepted and are following the guidelines while others are issuing their own. The Direct selling Industry as well as the government should realize that lot more need to be done so that people can understand the positive side of MLM Industry.

### 3. Emergence of Guidelines on Direct Selling

As the competition is increasing tremendously, the organizations have to find some innovative ways to do the business and to sustain in the market. Network marketing is the most influential, strong, vogueish, systematic and economical way of distribution. It is very different from the traditional marketing system. However, all the associates and contributors of the Direct selling industry are wrangled with various problems such as incidence of fraudulent acts, governmental policies with a big question mark, and moving out of some companies etc., which causes a reduction of trust in customers eye and displays them as suspicious business. That's why the MLM business people have conveyed a strong need for the government support to build an environment of trust and conviction for customers as well as the business organizations.

The appearance of Direct Selling Guidelines is an outcome of innumerable discussions between Direct selling Industry and different government ministries. The Department of Financial Services (DFS), Ministry of Finance was investigating the modifications in the Prize Chits and Money Circulation Schemes (Banning) Act, 1978. In October 2014, they organized a meeting with delegates of ASSOCHAM (Associated Chambers of Commerce of India), IDSA (Indian Direct Selling Association), FICCI, CII (Confederation of Indian Industry), PHD Chamber of Commerce and IDSA to analyze the chances of finding solution to the exploitation of the Act to the Industry and to release the activities of the Industry from the Act. Then after many discussions and conferences DFS realize that the disputes of the Direct Selling Industry cannot be solved by mere modifications in the Act and Direct Selling Industry can be exempted only if an independent law with a proper scheme of registration is formulated. Then the Secretary of Consumer Affairs recommended the government to formulate legislation for Direct Selling Industry. An Inter-Ministerial Committee (IMC) was then incorporated in November 2014 which includes the delegates from Ministry of Consumer Affairs, Ministry of

Corporate Affairs, Department of Industrial Policy & Promotion, Department of Revenue, DFS, Department of Legal Affairs, Department of Electronics and IT, and also the secretaries of Andhra Pradesh, Delhi, and Kerala.

The Indian Institute of Corporate Affairs (IICA), after administering its own separate study conclude that an independent legislation is the essential requirement for the Direct Selling Industry and then in August 2015 issued a blueprint of regulation for Direct Selling Industry. The need of the hour was to make distinguish between the legitimate Direct Selling Companies and fraudulent pyramid scheme. One of the important resolution was the compulsory registration for all the Direct Selling Industries with rationalize regulatory bodies. After several conferences and discussions, the Model Direct Selling Guidelines 2016 were issued by the Department of Consumer Affairs on 9 September 2016 as a consultative to the state governments to be thought-out in making the current statutory system more forceful and effective.

### 4. Overview of Direct Selling Guidelines 2016

On 12<sup>th</sup> September 2016, the guidelines for Direct Selling Industry was announced by Shri Ram Vilas Paswan, Minister of consumer Affairs, Food and Public Distribution and sent to State Government. All the Direct Selling Organizations should submit an undertaking to the Department of Consumer Affairs within the time period of 90 days from the of announcement date of the guidelines which include:

Declaration of compliance with these guidelines

Details of Incorporation.

The Direct Selling guidelines 2016 are the guiding principles for the State Government to examine the sphere of Direct Selling Companies and Multi-level Marketing (MLM) and to build up a strong regulatory mechanism for intercepting the fraud and safeguard the rights of the consumers. With the introduction of new guidelines on Direct Marketing the consumers as well as the distributors will be much more clear about the MLM business. The Direct selling Industry welcomed the new policy with open arms as it provide a clarity and encouraging the development of the Industry. Often DS Industry is considered fraud and associated with illegal pyramid schemes.

Here are some points which are often criticized by the people about MLM companies and are clarified by the Direct selling Guidelines 2016:

#### [1] Recruitment or Enrollment of new participants

Direct sellers cannot get any incentive or earning on joining of new participants under them. Remuneration must be absolutely bound to the sales of products and services. So, next time when you get any person telling you to join a company where you don't need to do anything and just recruitment to make money, it simply means that's a fraud organization.

**[2] No entry fee**

One can wonder how these companies are making money even if their products are not sold, and the answer is the joining fees that the companies charged to new members. Just imagine if a company has 10,000 distributors and they are charging 300 rupees for joining kit and brochures with a renewal fees of 500 per year, they are generating a revenue of 30,00,000 rupees from joining fees and 50,00,000 rupees from renewal amount. But from the date of announcement of direct selling guidelines 2016 no direct selling entity can charged registration fees from new participants.

**[3] Purchase Restriction**

It is noticed that even in big MLM brands the distributors are motivated to purchase a large volume of product to qualify certain level of commission. But from now DS companies cannot compel the members to purchase more than their expected consumption and sales.

**[4] Written Contracts**

Direct Selling Companies are bound to provide written contracts to each and every distributor mentioning all the terms related to

- 1) Buy back policy: What if a distributor is unable to sold the purchased products? For this the DS companies are now need to frame a reasonable repurchase policy where the sellers can return back the unsold goods.
- 2) Cooling off period: Every MLM company now must facilitate a period of time called Cooling off period in which a participant can cancel its registration, return back the products and get refund amount.

**[5] Remuneration System**

The structure and schemes of MLM companies are already so confusing in themselves and so the calculation method for remuneration. It is always ambiguous to the distributors. Thus, the system followed by the DS entity for the payment of incentives, bonuses, profits and commissions should be clearly disclosed and the calculation should be explained to every seller.

## **5. Enforcement of Direct Selling Guidelines by Various States**

The Integrated efforts of FICCI (Federation of Indian Chambers of Commerce & Industry), FDSA (Federation of Direct Selling Association), & IDSA (Indian Direct Selling Association) has filled the space between the government and the direct selling industry. According to Assocham (2017), Direct selling industry in India expects to reach 45,000 crore by 2025 which is now around 7,700 crore. Industry appeals to structure a separate law, on which the ministry is working gradually. First step is already taken by issuing the guidelines and now the second step is to frame a law. In 2017 Sikkim, Andhra Pradesh, Telangana and Chhattisgarh have adopted the guidelines, then in 2018, Mizoram, Odisha, Kerala, Tamilnadu and West Bengal also adopted for the same. These guidelines have encouraged the 6 millions direct sellers of India. Entrepreneurship is also boost up by these guidelines as well as acts as a powerful drive to job opportunities.

**6. Conclusions**

The Direct Selling Guidelines are greeted by the Direct Selling Industry with glad hands. Now the government agencies and administrative as well as consumers are able to make a distinction between the legal authentic Direct Selling Companies and fraudulent pyramid schemes. It assure the rights of the consumer and inhibit the leading participants to do illegal sales. This guidelines also secure the participation of distributors and lower the mistrust of people to join the industry. Still the authorization of these guidelines into a judicial law is the consequent mandatory measure to be taken. Afterwards more rectification of the guidelines is necessary to precisely explain the opportunities of Direct Selling Industry.

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