THE ECONOMIC IMPACT OF DIRECT SELLING ACTIVITY IN THE UNITED STATES IN 2016

PREPARED FOR
THE DIRECT SELLING EDUCATION FOUNDATION

PREPARED BY
ROBERT A. PETERSON, PHD
THE UNIVERSITY OF TEXAS AT AUSTIN

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INTRODUCTION

Direct selling is a business model that offers entrepreneurial opportunities to individuals who, as independent contractors, market products and services to consumers, typically outside of a fixed retail establishment through one-to-one selling, in-home product demonstrations, or online. Direct sellers may be called distributors, representatives, consultants, associates, or various other titles. They may participate in direct selling in various ways, including selling products and services themselves or through their sales organizations, providing training and leadership to their sales organizations, referring customers to their company, and purchasing products and services for personal use. Compensation is ultimately based on sales and may be earned through personal sales and/or the sales of others in their sales organizations.

In 2016, direct selling generated $35.54 billion in retail sales in the United States—the second-highest in direct selling history—and involved an estimated 20.5 million individuals. Of these individuals, some 5.3 million were engaged in building their own businesses, whereas the remainder, 15.2 million, are discount customers that receive a discount on products and services that they personally enjoy and use.

Even so, despite its ubiquity and contribution to the economy, the full economic impact of direct selling in the United States has not been formally or comprehensively assessed for more than a decade.[1] Therefore, the purpose of the present study was to estimate the economic impact of direct selling activity in 2016 through the application of a widely accepted input-out economic model. Given the retail sales generated by direct selling (i.e., its Direct Effect), the model (implemented by means of IMPLAN® software and data) estimated the

- Indirect Effect (upstream or supply chain sales) due to direct selling and
- Induced Effect (downstream sales due to household spending) associated with the direct and indirect effects.

These three effects—direct, indirect, and induced—collectively represent the economic impact of direct selling activity on the nation's economy. In addition, the study estimated the economic impact of direct selling activity for five geographically dispersed states: California, Florida, New York, Ohio, and Utah. Finally, the study estimated the fiscal (tax) implications of direct selling activity in the United States as well as in the five states.

1 See *Social and Economic Contributions of the Direct Selling Industry in the United States: 2004 Socio-Economic Contribution Study*, WFDSA and DSA (February 2006).

EXECUTIVE SUMMARY

An input-output economic analysis of 2016 direct selling sales activity was undertaken using IMPLAN® software and data obtained from the federal government.[2] Direct selling (retail) sales data were provided by the Direct Selling Association. The purpose of the analysis was to estimate the economic impact of direct selling activity in the United States in 2016. To provide a context for interpreting the 2016 impact of direct selling activity, the economic impact of direct selling activity in 2010 and 2015 was also estimated.

Results are reported in terms of direct, indirect, and induced effects on a measure of gross economic output, sales dollars. Gross economic output refers to the cumulative value of production. Unlike Gross Domestic Product (GDP), gross economic output includes intermediate goods and services. (GDP is synonymous with total output less intermediate inputs.)

Using the Direct Selling Association estimate of $35.54 billion in direct selling (retail) sales in 2016 as a starting point, the economic impact of direct selling activity in the United States in 2016 was estimated to be $83.11 billion. The $83.11 billion economic impact consisted of the direct effect of direct selling, $35.54 billion, the indirect (upstream or supply chain) effect of direct selling, $24.1 billion, and the induced (downstream or household) effect of direct selling, $23.5 billion. Because of the analytic approach, the estimated economic impact of $83.11 billion should be considered conservative.

The derived multiplier emanating from the IMPLAN® analysis was 2.34. This multiplier means that nationally $1.00 in direct selling (retail) sales produced an economic impact of $2.34 in 2016. The 2016 derived multiplier is slightly larger than the 2015 derived multiplier,

2 IMPLAN® is widely used in industry and government analyses and was the modeling approach also used in the 2004 study referenced in footnote 1.

which was 2.31, and 6 percent larger than the 2010 derived multiplier (2.21). These increases were likely due to increases in induced effects over the respective time periods.

In 2016 the economic impact of direct selling activity produced an estimated $6.1 billion in federal taxes and $4.5 billion in state and local taxes, or $10.6 billion in total taxes. This represents an increase of $100 million in tax revenue from 2015. Further, the total value (direct, indirect, and induced effects) added to the nation's Gross Domestic Product in 2016 was estimated to be $43.7 billion, which represents an increase of $900 million from 2015.

An IMPLAN® analysis was also conducted for five states, California, Florida, New York, Ohio, and Utah. The analysis produced both in-state and inter-state estimates of economic impact and estimates of taxes attributed to the economic impact.

- The estimated inter-state economic impact of direct selling activity in California was $9.8 billion, which in turn produced estimated state and local taxes of $669 million.
- The estimated inter-state economic impact of direct selling activity in Florida was $4.32 billion, which in turn produced estimated state and local taxes of $235 million.
- The estimated inter-state economic impact of direct selling activity in New York was $5.38 billion, which in turn produced estimated state and local taxes of $393 million.
- The estimated inter-state economic impact of direct selling activity in Ohio was $2.42 billion, which in turn produced estimated state and local taxes of $140 million.
- The estimated inter-state economic impact of direct selling activity in Utah was $1.03 billion, which in turn produced estimated state and local taxes of $45 million.

OVERVIEW & METHODOLOGY

This study estimates the economic impact of direct selling activity in the United States in 2016 using the IMPLAN® input-output economic model. Specifically, in the present context gross economic activity refers to sales dollars generated and distributed throughout the United States economy. The sources of effects that sum to economic output consist of both capital expenditures and operating expenditures, including spending on goods and services by direct selling firms, the **direct effect**, as well as by firms within the direct selling supply chain, which leads to the **indirect effect**, and off-site spending on goods and services by households in which a member worked for a direct selling company or supply chain company, the **induced effect.**

A series of multipliers link the direct, indirect, and induced effects. These multipliers are based on data compiled by several federal entities and include the Bureau of Economic Analysis Benchmark Input-Output Tables. (See the Appendix for details.) A summary metric, the direct selling derived or implied multiplier, estimates the impact of one direct selling sales (retail) dollar on gross economic output due to inter-industry and industry-employee household relationships between the direct selling industry and other industries.

Conceptually, the multipliers quantify the economic ripple effect of inter-industry economic activity. This ripple effect can be positive or negative depending on whether a modeled entity is expanding or contracting. Multipliers are static and do not account for disruptive shifts in infrastructure without specifically addressing infrastructure changes. The present model applies the most current (2015) IMPLAN® multipliers using IMPLAN V3.

3 EFFECTS CONTRIBUTING TO ECONOMIC OUTPUT

The following three effects collectively contribute to direct selling's impact on the economy:

DIRECT: retail sales generated by direct selling

INDIRECT: upstream or supply chain sales due to direct selling

INDUCED: downstream sales due to household spending associated with the direct and indirect effects

DATA

The Direct Selling Association conducts an annual "Growth & Outlook" market-sizing survey to estimate the size and scope of the direct selling channel in the United States. The Direct Selling Association engages Nathan Associates, an economic consulting firm, to conduct this survey, perform secondary research, and generate industry-wide estimates.

The Nathan Associates market-sizing estimates are reviewed and further analyzed by the Direct Selling Association. The results that are reported include total direct selling (retail) sales as well (retail) sales estimates by selected geographical regions, by compensation structure of direct selling firms, by sales strategy, and by major product categories. The particular product categories utilized in the present study are:

- Home & family care/home durables
- Wellness
- Personal care
- Services & other
- Clothing & accessories
- Leisure & educational

The Direct Selling Association (retail) sales estimates formed the basis of the IMPLAN® analysis. Specifically, according to the Direct Selling Association, direct selling (retail) sales totaled $35.54 billion in 2016, down $580 million or 1.6 percent from the $36.12 billion in estimated direct selling (retail) sales in 2015. The 2016 $35.54 billion in direct selling (retail) sales was modeled in IMPLAN® with margins applied. This was equivalent to identifying the economic impact of operating a business with $35.54 billion in retail sales. It excluded the manufacturing, wholesaling, and transporting of goods, and included only the economic activities associated with direct selling companies. The $35.54 billion was the starting point for estimating the total economic impact of direct selling activity in 2016.

Wholesaling and manufacturing indirect effects of direct selling activity due to the industry supply chain were sequentially modeled by respectively applying margins to direct selling (retail) sales activity and wholesale sales activity. For wholesaling, this permitted the identification of the economic effects of operating the equivalent of a wholesale business. The wholesale industry analysis included transportation but excluded the effect and supply chain of the manufacturing component.

Manufacturing activity was estimated after applying margins to and subtracting direct selling economic activity and wholesaling economic activity. Manufacturing sales activity was modeled using six product groups (e.g., home and family care/home durables, wellness, personal care, services, clothing/accessories and leisure/educational) reported by the Direct Selling Association in its *2017 Growth and Outlook Report*.

The induced effect of direct selling activity was estimated for each sector analyzed (i.e., retailing, wholesaling, and manufacturing) and aggregated to reflect its total estimated economic impact.

Taxes attributable to direct selling activity were also estimated using the IMPLAN® model. The tax estimates provided in this report include tax revenue derived from direct, indirect, and induced sales activity. The national economic impact tax estimate includes both federal taxes and state/local taxes, whereas state economic tax impacts include only state and local taxes.

Analogous to the national economic impact analysis, direct selling (retail) sales data served as the starting point of the economic impact analysis for each of the five states studied. These states were selected to provide a broad geographical representation of direct selling activity in the United States. Based on Census Bureau data, collectively the five states contained approximately 29.2% of the United States population in 2016.

- The 2016 estimated population of California was 39.250 million (12.1% of the U.S. population).
- The 2016 estimated population of Florida was 20.612 million (6.4% of the U.S. population).
- The 2016 estimated population of New York was 19.745 million (6.1% of the U.S. population).
- The 2016 estimated population of Ohio was 11.614 million (3.6% of the U.S. population).
- The 2016 estimated population of Utah was 3.051 million (.9% of the U.S. population).

According to the Direct Selling Association's *2017 Growth and Outlook Report,* in 2016 the five states represented more than one-quarter (27.5%) of total direct selling (retail) sales nationally.

- California had 11.7% of national direct selling (retail) sales.
- Florida had 5.2% of national direct selling (retail) sales.
- New York had 6.5% of national direct selling (retail) sales.
- Ohio had 2.9% of national direct selling (retail) sales.
- Utah had 1.2% of national direct selling (retail) sales.

Calculation of a state-level index of percentage of direct selling (retail) sales divided by percentage of population produced per capita estimates of direct selling (retail) sales. For the five states the per capita average index was 100 (which represents equal percentages of sales and population).

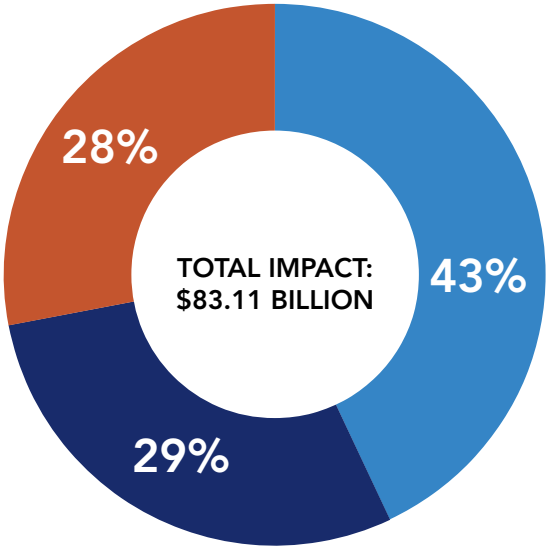
- California had an index value of 97.
- Florida had an index value of 81.
- New York had an index value of 107.
- Ohio had an index value of 81.
- Utah had an index value of 133.

Thus, on a relative per capita basis, New York and Utah were above average whereas California, Florida, and Ohio were below average with respect to per capita direct selling (retail) sales in 2016.

The in-state economic impact of direct selling activity for each of the five states is summarized by a derived multiplier driven only by the direct selling sales activity in that state. Although some of these states are manufacturing and wholesale hubs for products and services sold in other states or nationally, IMPLAN® does not estimate such activity. Therefore, the IMPLAN® estimates were adjusted for inter-state economic activity in the final analysis. Where appropriate, IMPLAN® model default values were used for local purchasing coefficients, which means that only a portion of manufacturing activity was estimated to be local for a state.

ECONOMIC IMPACT

2016 ECONOMIC IMPACT ESTIMATES



- DIRECT EFFECT: $35.54 BILLION
- INDIRECT EFFECT: $24.06 BILLION
- INDUCED EFFECT: $23.51 BILLION

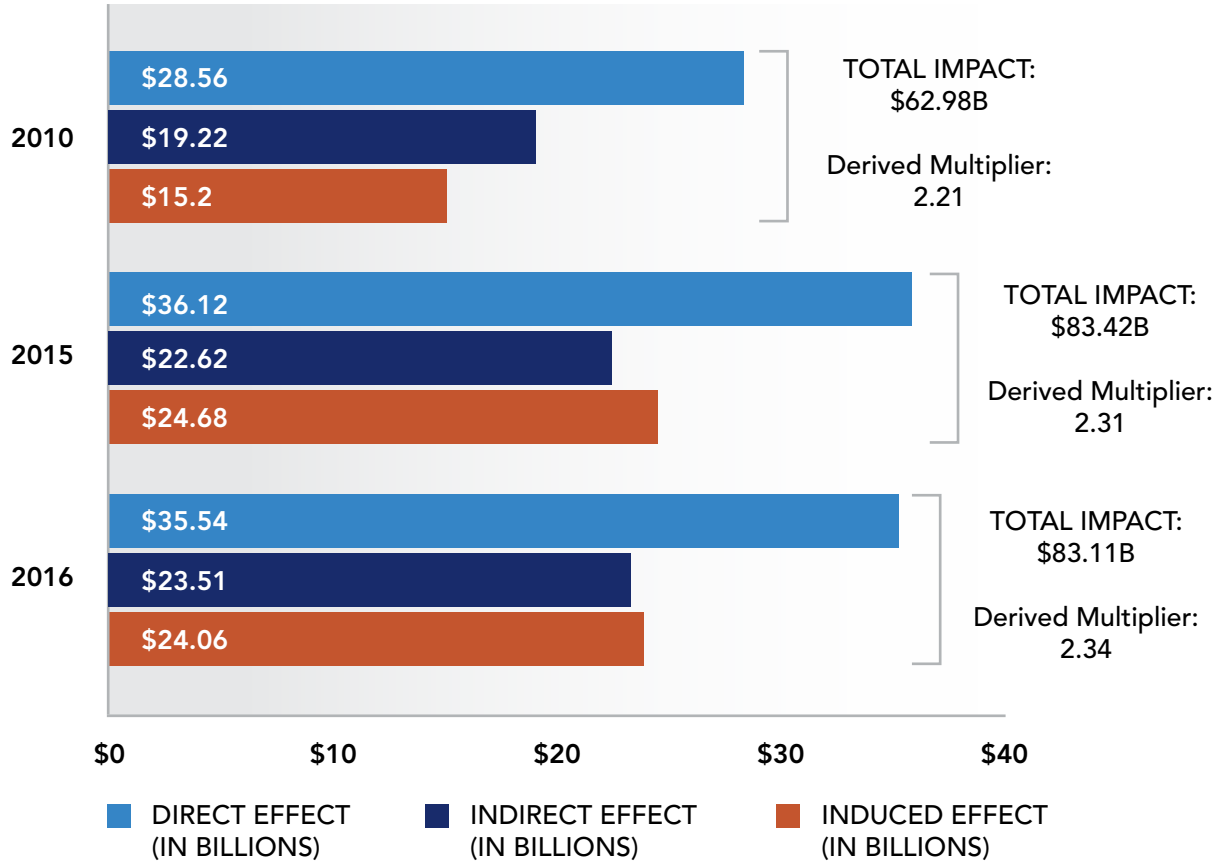
This section of the report contains the estimated economic impacts of direct selling activity in 2016 for the United States as a whole, as well as for the five states studied. To provide a dynamic view of the direct selling channel's national economic impact, comparable economic impact estimates generated by IMPLAN® for 2010 and 2015 are presented for the United States. A brief discussion of the 2004 estimated economic impact of direct selling is also provided for context.

NATIONAL ECONOMIC IMPACT

The $35.54 billion in direct selling (retail) sales nationally contributed $83.11 billion to the national economy in 2016. This compares to direct selling (retail) sales of $36.12 billion and an economic impact of $83.4 billion in 2015, and $28.6 billion in direct selling (retail) sales and an economic impact of $63.0 billion in 2010. As shown in the chart, the 2016 national economic impact included $35.4 billion in direct selling sales activity, $24.06 billion in indirect sales activity, and $23.51 billion in induced sales activity.

For comparison purposes, the corresponding national economic impact figures for 2010 and 2015 are displayed on page 10, together with the 2016 figures. While the direct and indirect effects of direct selling economic activity declined slightly from 2015 to 2016, the induced effect increased slightly. In particular, the induced effect increased $890 million or approximately 4 percent from 2015 to 2016.

2010, 2015, AND 2016 ECONOMIC IMPACT ESTIMATES



The derived (implied) multiplier summarizes the economic impact of one direct selling (retail) sales dollar ($1) on the national economy. It is calculated as the total economic impact divided by the direct effect. Thus, for example, $1 in direct selling sales (the direct effect) generated a total economic impact of $2.34 in 2016, slightly up from $2.31 in 2015. This derived multiplier is similar to derived multipliers observed in other retailing sectors (approximately 2.4 on average).

Moreover, the IMPLAN® estimated total (direct, indirect, and induced) value added to the nation's Gross Domestic Product attributable to direct selling activity in 2016 was $43.7 billion. This figure reflects a 2.3 percent increase compared to the 2015 Gross Domestic Product value-added figure of $42.8 billion; the increase appears to be due to a slight increase in the induced effect of direct selling economic activity from 2015 to 2016.

ECONOMIC IMPACT IN FIVE STATES

Five states that are diverse in geography and population were selected to illustrate the state-level economic impact of direct selling activity in 2016. Economic impact is first presented for each state using only in-state IMPLAN® estimates. By definition, in-state estimates do not capture economic activities between or among states. Therefore, in-state estimates

were adjusted to estimate inter-state economic activities. This adjustment was based on the assumption that within a state, there is a linear relationship between direct selling (retail) sales and economic impact as well as a linear relationship between economic impact and taxes.

CALIFORNIA

Total direct selling (retail) sales in California were estimated at $4.2 billion in 2016. The in-state estimated economic impact of the $4.2 billion in direct selling activity in California was $7.1 billion. Thus, the in-state derived multiplier for California is 1.69. Although additional wholesale and manufacturing activity likely occurs in California, as the state is a hub for firms that manufacture and wholesale goods nationally, this additional activity is not included in the in-state economic impact estimates.

The adjusted (inter-state) economic impact estimate of direct selling activity in California was $9.8 billion, and the associated derived multiplier was 2.33 for inter-state economic activity.

FLORIDA

Total direct selling (retail) sales in Florida were estimated at $1.9 billion in 2016. The estimated in-state economic impact of the $1.9 billion in direct selling activity in Florida was $3 billion, which produced a derived multiplier of 1.58.

The adjusted (inter-state) economic impact of direct selling activity in Florida was $4.32 billion, and the associated derived multiplier was 2.27.

NEW YORK

Total direct selling (retail) sales in New York were estimated at $2.3 billion in 2016. The estimated in-state economic impact of the $2.3 billion in direct selling activity in New York was $3.3 billion, which yielded a derived multiplier of 1.43.

The adjusted (inter-state) economic impact of direct selling activity in New York was $5.38 billion, and the associated derived multiplier was 2.34.

OHIO

Total direct selling (retail) sales in Ohio were estimated at $1.0 billion in 2016. The estimated in-state economic impact of the $1.0 billion in direct selling activity in Ohio was $1.5 billion, which equated to a derived multiplier of 1.5.

The adjusted (inter-state) economic impact of direct selling activity in Ohio was $2.42 billion, and the associated derived multiplier was 2.42.

UTAH

Total direct selling (retail) sales in Utah were estimated at $422 million in 2016. The estimated in-state economic impact of the $422 million in direct selling activity in Utah was $689 million, which produced a derived multiplier of 1.63.

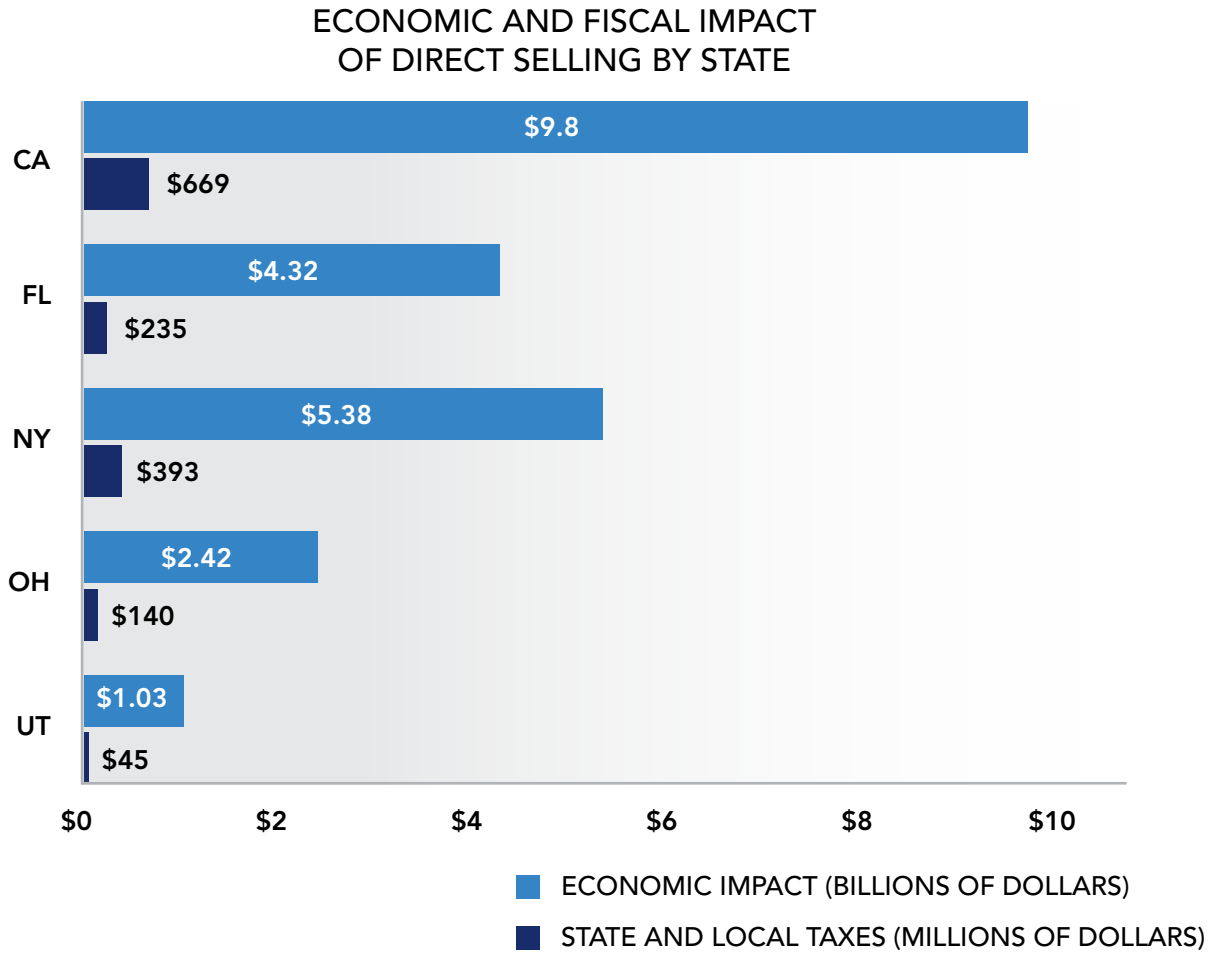
The adjusted (inter-state) economic impact of direct selling activity in Utah was $1.03 billion, and the associated derived multiplier was 2.43.

The in-state derived multipliers for the five states studied were smaller than that of the United States as a whole. This is because of "leakage," the fact that part of the supply chain for the direct selling industry in a state lies outside of the state. However, when the economic impacts are adjusted for leakage, the derived multipliers are on average similar to that for the United States as a whole, 2.34.

FISCAL IMPACT

Tax impacts estimated by IMPLAN® are respectively categorized as federal taxes and state and local taxes. IMPLAN® quantifies tax impacts based on employee compensation, proprietor income, and taxes on production and imports, households, and corporations. Estimated taxes range from federal and state income taxes and property taxes to sales taxes and motor vehicle licenses. As such, the estimated total (direct, indirect, and induced) federal, state, and local tax revenues attributable to direct selling activity in the United States in 2016 were $10.6 billion, an increase of $100 million from 2015. Total federal tax revenues traceable to the $35.54 billion in direct selling activity were estimated at $6.1 billion in 2016. State and local taxes attributable to direct selling activity were estimated at $4.5 billion in 2016.

Estimated 2016 direct state and local taxes (excluding federal taxes) attributable to direct selling activities for the five states studied are presented in the graph below:



THE 2004 ECONOMIC IMPACT STUDY

Although the *2004 Socio-Economic Contribution Study* employed a slightly different IMPLAN® modeling approach from that used in the present study, it provides an additional perspective for interpreting the 2016 national economic impact of direct selling activity. Direct selling (retail) sales were estimated at $29.7 billion in 2004, leading to an estimated direct effect of $32.4 billion. The total economic impact was estimated to be $72.1 billion, producing a derived multiplier of 2.22. Total federal, state, and local taxes were estimated at $6.6 billion.

Thus, from 2004 to 2016, direct selling (retail) sales increased 20 percent, total economic impact increased 15 percent, the economic impact of one direct selling dollar increased 5.4 percent, and total taxes attributable to direct selling activity increased $4 billion or 60 percent. Note that the 2004 dollar estimates were not adjusted for inflation.

APPENDIX

IMPLAN® V3 is an input-output economic model based on aggregating and connecting a multitude of economic databases, foremost of which are the Bureau of Economic Analysis (United States Department of Commerce) Benchmark Input-Output Tables.[3] It consists of both software and data that together permit detailed estimates of various economic impacts. The model quantifies inter-industry relationships within an economy by documenting how the output of one industry becomes the input of another industry. Through a backward-linking process the present study captured the relationship between economic activity in the direct selling industry and economic activity in its (general) supply chain (i.e., the indirect effect of direct selling activity on the wholesaling and manufacturing firms in the direct selling supply chain) as well as the ancillary (household) effect that direct selling activity has on the economy (i.e., the induced effect).

The primary databases contained and used in IMPLAN® V3 are respectively compiled and updated by the United States Census Bureau, the United States Bureau of Economic Analysis, and the United States Bureau of Labor Statistics. Specific databases include:

- Census Bureau Annual Survey of Manufactures
- Census Bureau County Business Patterns
- Census Bureau Annual Retail Trade Survey
- Bureau of Economic Analysis Benchmark Input-Output Tables
- Bureau of Economic Analysis Regional Economic Accounts
- Bureau of Economic Analysis Annual Industry Accounts
- Bureau of Economic Analysis National Income and Product Accounts
- Bureau of Labor Statistics Quarterly Census of Employment and Wages
- Bureau of Labor Statistics Consumer Expenditure Survey

There were a variety of multipliers used in the present analysis that linked the six product categories and the manufacturing sector (which were in turn linked to the wholesale and retail sectors). For the direct selling industry the IMPLAN® "Nonstore Retailers" sector was used in the analysis. This IMPLAN® sector cross references with NAICS classification code 454390 as well SIC code 5963. To illustrate, SIC code 5963 is defined as "Direct Selling Establishments" (NAICS 454390 is "Other Direct Selling Establishments"):

> Establishments primarily engaged in the retail sale of merchandise by telephone; by house-to-house canvass; or from trucks or wagons or other temporary locations. Included in this industry are individuals who sell products by these methods and who are not employees

3 Frances Day, "Principles of Impact Analysis & IMPLAN® Applications." IMPLAN® stands for **IM**pact Analysis for **PLAN**ning.

of the organization which they represent, and establishments which are retail sales offices from which employees operate to sell merchandise from door-to-door.

Because the Nonstore Retailers sector encompasses more establishments than those traditionally defined as direct selling companies, its associated multiplier might be somewhat attenuated. However, any possible attenuation was not believed to substantially affect the results of the estimation process or the final economic impact estimation due to limiting the analysis to particular product categories.

Specifically, when modeling the manufacturing sector, the multipliers associated with six direct selling product categories incorporated the categories' relative sales and the percentage of category manufacturer sales that originated in the United States (based on federal data sources). Direct selling (retail) sales for the product categories were allocated proportionally to state direct selling (retail) sales when conducting the analyses for the five states studied. The 2016 direct selling (retail) sales percentages were based on 2017 Direct Selling Association estimates, whereas the 2016 domestic purchasing percentages (related to local purchasing coefficients in IMPLAN®) were based on federal statistics. Hence, for example, 15 percent of the clothing and accessories sold through direct selling was estimated to be locally manufactured in the United States.

PRODUCT CATEGORY	2016 PERCENTAGE OF DIRECT SELLING (RETAIL) SALES	2016 DOMESTIC PURCHASING %
HOME & FAMILY CARE/HOME DURABLES	**16.5**	**52**
WELLNESS	**34.9**	**98**
PERSONAL CARE	**16.4**	**84**
SERVICES & OTHER	**21.5**	**100**
CLOTHING & ACCESSORIES	**8.2**	**15**
LEISURE & EDUCATIONAL	**2.5**	**93**
	100.0%	

Within product categories, subcategories were aggregated to form the product category. For instance, seven IMPLAN® subcategories were aggregated to create the home and family care/home durables product category. Trade flows and industry data for the seven subcategories were combined in IMPLAN®, and new multipliers were generated by the IMPLAN® software. (Note: the combination was not a simple average.) The subcategories included, but were not limited to, cutlery, utensil, and pot and pan manufacturing; small electrical appliance manufacturing; and office supplies (except paper) manufacturing, with a residual "other miscellaneous manufacturing" subcategory. To the extent that product category data do not comport exactly with direct selling product offerings or sales, the multipliers might be somewhat attenuated. However, the potential consequence of such attenuation was not deemed substantial.

Where appropriate, the default values of the IMPLAN® software were applied during the analysis. Consequently, all estimated values—multipliers as well as effects and impacts—should be considered conservative.

DSEF

info@dsef.org | www.dsef.org

Phone: (202) 452-8866
Fax: (202) 452-9015

1667 K street NW, Suite 1100
Washington, D.C. 20006