

DIRECT SELLING NEWS®



PART 1

MICRO-ENTREPRENEURS: THE FUTURE STATE OF DIRECT SELLING

BY JAMES B. SMITH

Eight months ago, I took my first trip to Ottawa, Canada's capital, as the new President of the Canadian Direct Sellers Association (DSA). When Canadian Prime Minister Justin Trudeau took office in November 2015, he brought an unprecedented number of new Members of Parliament (MPs) with him. Two-thirds, or 200, of these MPs and 75 percent of the Liberal Party MPs were new to their government role.

With close to half of the Members of Parliament under 40 and their new staffers even younger, there was a troubling lack of historical knowledge about our channel of distribution and our business model. As we discussed independent contractors during my visit, the conversation immediately moved to Uber. They wanted to know, "how are you different from Uber?" I was then informed that the Government was considering mandating a social safety net called "Employment Insurance" for Uber. This mandate would pose a major threat to our industry if passed. It was essential the Government understand the differences between companies like Uber and our business model.

The Canadian Government has an interest in how companies treat their part-time workers because part-time work is on the rise. According to a recent report from Intuit Canada, 45 percent of all Canadians will work as independent contractors by 2020.

But we all know the problem with employment insurance

is that if mandated, it changes the classification of our salesforce to *employees*. This of course disrupts our financial model and makes profitability virtually impossible.

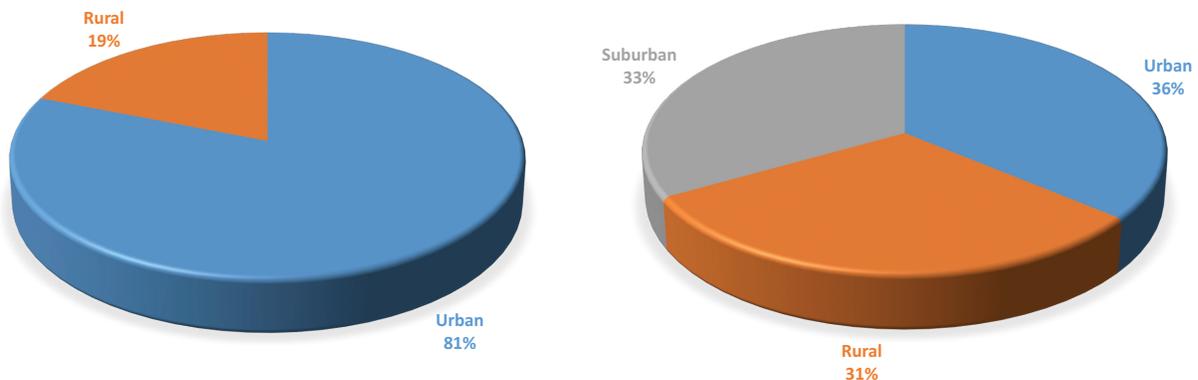
After returning home from these meetings and considering how to frame the discussions, I reached out to the Vice President of Government Relations and Compliance at Mary Kay Corp., Kerry Tassopoulos. He directed me to Jeanette Shaw, a top lobbyist in the U.S. who specializes in independent contractor work. Jeanette's advice: the DSA should differentiate itself from Uber and fast.

After discussions and much thought, it became clear that differentiating our direct selling business model is based on the realities of how we've evolved into operating as *micro-entrepreneurs*. I believe this term more accurately reflects our workforce in the new economy.

We created a new government relations presentation that focused on the education, skill development and training we offer, which ultimately demonstrates why *people* are the cornerstone of our industry. We acknowledged the rise in part-time workers and the success of Uber, but were able to show our differences. This focus, coupled with our new socioeconomic impact study highlighting average sales and commissions, hit the mark and put the Government officials at ease.

It didn't hurt that we shared an article from *The Wall Street Journal* featuring driverless cars being tested in

POPULATION VS. MICRO-ENTREPRENEUR LIVING AREA



- Micro-entrepreneurs in Canada are evenly dispersed between urban, rural and suburban areas

* SOURCE: 2015 Socio-Economic Impact Study (SEIS) / 2011 Statistics Canada



Pittsburgh to demonstrate Uber's real long-term intentions of doing away with people altogether.

As soon as this matter was settled, we were faced with a new threat to our business called *de minimis*, which is Latin for "minimal amount." The *de minimis* threshold in Canada is currently at \$20, meaning that a Canadian can buy a product tax and duty free if it's under \$20.

A group of lobbyists led by Amazon, eBay and UPS would like to raise the *de minimis* threshold to \$200. Under this proposal, consumers would continue to pay up to 15 percent tax on products purchased at retail or through our micro-entrepreneurs, but they could purchase like products online through Amazon tax and duty free. This proposal clearly creates an uneven playing field.

With this proposal leaning in their favor, the system would make it harder for our micro-entrepreneurs to compete, which would negatively affect local economies in Canada.

Despite our insistence that this threshold increase would lead to a significant tax revenue loss, it was to no avail. Thankfully, our member companies rallied behind the idea of sharing the impact of this proposal from a micro-entrepreneurial perspective. We launched a successful grassroots campaign with customized software that

delivered 5,000 letters to local Members of Parliament across Canada in just a few weeks.

Our message in Ottawa also changed. Instead of fighting an uphill battle with a Government that was clearly pro e-commerce, we decided to swim downstream. Our argument became that if you are going to change the game for e-commerce, then include our micro-entrepreneurs, since 96 percent have a personalized website and use social media. The line "we amplify an e-commerce business through our micro-entrepreneurs" penetrated and made perfect sense to the politicians. The result? *De minimus* did not make it into the Federal Budget.

Working through these two issues taught us many things, but one issue that stands above the rest is our language and communication to outside stakeholders. Using the terms *micro-entrepreneurs* and *social selling* makes sense when you explain it to people unfamiliar with our channel. In both cases, using these terms helped government officials understand that we are part of the new economy, and as a result, they became fully engaged in the conversation and we were able to accomplish our goals. Perhaps we should consider moving on to terminology that outsiders can relate to and better grasp in a more full economic perspective. **DSN**



PART 2

WINNING THE REGULATIONS
BATTLE AND WELCOMING
INTERNATIONAL COMPANIES

BY JAMES B. SMITH

During the same time that we were working with the government on educating new Members of Parliament (MPs) and their staffers about the unique business proposition that is direct selling, we had a concern about a member company. This concern led to a full review of our Canadian DSA Code of Ethics, the role of a Code Administrator and our vetting process. In the end, we decided to protect our membership and preserve the integrity of our Code by suspending this member. It was not an easy decision, but it was the right one. This review also led to the implementation of a two-tiered vetting process, encompassing both legal and compliance issues, that provides new members with a confidential report that identifies any areas of exposure from a regulatory standpoint.

CANADA'S COMPETITION BUREAU

The Canadian equivalent to the U.S. Federal Trade Commission (FTC) is the Competition Bureau. The Competition Bureau, with anti-pyramid legislation firmly in place, reviews compensation plans and policies prior to any company expanding into the Canadian market. To obtain required licensing in four out of the 10 provinces, a company is required to produce a positive opinion from the Competition Bureau. If it is discovered that a company is doing business in Canada prior to obtaining an opinion, the Bureau will not review your company.

John Pecman, the Commissioner of the Competition Bureau, has told us they will be looking very closely at companies who are doing business in Canada, but not licensed. By the way, it only takes about 30 seconds online to determine if a company has micro-entrepreneurs selling in a province without a license.

Our goal at the Canadian DSA is not to fear the regulators, but to help lead the conversation. To this end, we have worked with Pecman and the Bureau to establish a strong connection and help them understand our goals and our channel. So far, Pecman and the Bureau are pleased with our meaningful Code of Ethics and our new improved vetting process, saying, "The shared compliance approach is one which I strongly advocate. I look forward to continuing our open working relationship." We also are pleased, and want to keep it that way to not only protect the industry, but to also provide more compliance education, and most important, to avoid any unnecessary surprises.

We consider a strong relationship with the Competition Bureau to be in the best interest of all of our companies. Pecman has indicated support for our input into disputes, saying, "If we ever have a problem with a social selling company in Canada we will call you first."

CANADIAN DEMOGRAPHICS AND SOCIAL SELLING

Our continued efforts to educate Parliament and our strong relationship with the Competition Bureau contribute to making Canada a great place for any U.S. company considering international expansion. Another key factor is that we are geographically close to the U.S. with no language barriers. For many companies already, we are their first market for expansion.

Canada is one of the largest countries in the world, second in size to Russia, with a population of 35.8 million people. Four out of five Canadians live within 100 miles of the U.S. border and, surprisingly, Canada is slightly more urban than the U.S., with 81.1 percent urban and 18.9 percent rural. Despite a total population of only 11 percent of the U.S., it is possible for direct selling

FOCUS ON CANADA

companies to achieve up to 30 percent of their U.S. retail sales in the Canadian market.

Canadians are receptive to the social selling business model and are highly motivated from an opportunity perspective. Personal taxes are higher than the U.S. (corporate taxes are currently lower), and prices are generally higher, with most products being imported with a 75 cent Canadian dollar tax. Additionally, Canadian personal debt levels have risen 23 percent in the past 10 years, making the opportunity to earn additional income even more attractive. There is also less competition, with only 100 direct selling companies doing business in Canada versus an estimate of 2,000 or more in the U.S.

According to a recently released socioeconomic impact study conducted by the Canadian DSA, there are 1.2 million micro-entrepreneurs in Canada generating annual sales of \$2.41 billion. Demographics are similar to the U.S. market, with 89 percent in the 18- to 64-year-old age category, with the largest segment in the 18- to 34-year-old category. The industry in Canada skews slightly more female than the U.S. market at 82 percent. Geographically our micro-entrepreneurs live in the following areas: 36 percent urban, 31 percent rural and 33 percent suburban.

Canada is also similar to the U.S. in terms of product categories by company. As a percentage, there is slightly more personal care and cosmetics and household goods companies, but slightly less in the percentage of wellness and service companies. Skincare seems to be one of the fastest growth categories in Canada. Prestige skincare is growing at 10 percent in Canada versus 3 percent in the U.S., according to market research company NDP group.

IMMIGRATION TRENDS CONTRIBUTE TO SUCCESS

Immigration trends and population segments in Canada also play a role in our channel. Twenty-one percent of Canada's population is foreign born and by 2031 it is estimated that half of Toronto, North America's fourth largest city, will be foreign born. The Chinese population is one of the fastest-growing immigrant populations in Canada and is currently at 1.3 million people. Canada is more of a multicultural mosaic as opposed to a melting pot, meaning that there is a greater tendency for immigrants in Canada to retain their language, heritage and culture than in the U.S. They also tend to live in pockets. In the case of the Chinese, 97 percent live in four provinces in Canada and 81 percent reside in British Columbia and Ontario.

Many wellness direct selling companies in Canada have a significant percentage of their salesforce comprised of Chinese. A few even claim well over 50



percent of their sales from British Columbia, a province that represents only 13 percent of the overall Canadian population. Some of the larger, more established wellness companies suggest that the Chinese business in Canada helped them expand their businesses successfully into Mainland China because they came to understand important components of the culture by dealing with that population in their Canadian business.

These are compelling reasons that make Canada a natural first step in international expansion. Some of the strict requirements in Canada, such as health products requirements, French-language mandatory packaging requirements, and the standards set by the Competition Bureau, could be seen as hurdles to overcome. However, given the current regulatory climate, these standards compel companies to adhere to best practices, which will invariably become a benefit in other markets. In other words, if you can make it in Canada, you can make it anywhere.

WRAPPING IT UP

The Canadian DSA is focusing on helping companies achieve success moving into Canada or helping companies maximize their sales in the Canadian market. We are continually monitoring and staying on top of Government affairs and, as you can see from our activities over the past eight months, staying united and working together can create positive results for our channel. The DSA in Canada is committed to transparency, authenticity and most importantly, education.

I am confident that we are moving in the right direction and that we can forge ahead in defining our channel's future! **DSN**

Sources: Statistics Canada 2015, Socio-economic impact study 2015, Intuit Canada 2020 report, 2015 NPD Group Canada



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