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**Direct Selling – A Regulatory Overview: How Direct Selling is Regulated and
Managed in Different Markets**

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(Transcript)

Good morning and it's a pleasure to be here in HK. I would like to thank the organizers of this impressive conference, and for their efforts and for their kind invitation to me to be here. I'll speak to you both as something of an insider and something of an outsider, I'm an outsider and in the sense that as a consultant in a Asian affairs with respect to public relations and public affairs, government relations, I have, but it doesn't near of experiences in the direct sales industry in Asia, however, I'm not an expert on the operational side of the business, it's always fascinating to learn more about that, so I will focus on the regulatory issues with which I'm familiar.

You know, the chairman DeVos's comments reminded me of the global strength of this industry 46 million sellers at least operating around the world, that's about the size of the population of the Republic of Korea, I happened by the way to have most of my experience in the area of the Korean market, so many of my observation will be based on what I learnt there. That I believe is relevant because as we all know that's one of the major direct sales markets in the world and with respect to regulation is also been one of the most active markets in the world. I think one of the most creative in terms of the government policies, the figure 46 million which roughly the population of South Korea reminded me of the situation just about exactly 10 years ago when the government of Korea unfortunately moved the virtually illegalized direct sales industry at least with respect to our normal business model, and I'll never forget the government of senior government official was in charge of that assault of the industry was with their commerce ministry, who actually had something of a chart on the wall, through which had predicted that nearly every adult, man and woman, in the Republic of Korea, with very shortly, within a short number of years people recruited by this various of direct sales industry and that taken over to do the industry bidding something it came to threat the country post by storm on the North Korea. I suppose, but it didn't quite work out that way in the industry as a healthy one in Korea.

I'd like to survey some examples first of a burden of restrictions about which I'm aware regarding direct sales business in Asian markets, those typically come from 3 sectors, government themselves of course, media organizations and a broadly term public interest group which could include consumer advocacies which does include consumer advocacies groups and also our competitors. I'll touch upon some of the institutional and cultural factors which I believe give rise to some of these burdens

and restrictions, and I'll try to wrap up by suggesting steps, action program, measures that might be taken by industry to deal with or even prevent some of these threats. First I believe the institutional and cultural factors are quite well known to those of us who work in Asia or indeed Asia, we often pay face with negative image with respect to our industry, there're the horror stories there I more often in there taking out of contexts of certainly exaggerated as chairman DeVos mentioned our complaint rate is actually quite low, we know that very well, we have a channel to communicating that to the public and to the government sector as well. We know that the legitimate direct sales industries are not simply gimmicks into generate unreasonable profits. That related to that there's also, I believe general misunderstanding about the relationship between direct sales companies and the sellers themselves. The sellers being by enlarged quite independent and separate from the company, so this is independent business nature regarding the sellers is an important factor in my mind.

In Asian cultures, it seems to me there's often a feeling that direct sales companies particularly foreign companies, particularly western companies, are moving in to take advantage of the network and some markets' confusion nature of those societies, that's a sentiment with which we have to deal regularly. Let me touch a point of a few of the very specific or some of these specific burdens on regulations I dealt with over the years. One is unfair or inaccurate attack by the media and our markets, similarly we have often seen unfair anti direct sales campaigns efforts on executed by the public interest groups, consumer groups, our competitors, sometimes just become involved in those kind of activities boycotts are things we faced before, all of which tend to focus on eventually at least from pressure on their respective governments to take actions regarding to direct sales industry. Government actions have included the investigations which in some cases appear to be harassing activities by government into this, scrutiny of direct sales companies by both national and local government can be a particular problem in some markets so dual scrutiny dual regulation per se not only the capital cities' government but also the local provincial and township governments.

We know that in some markets in Korea as an example of this, there've been restriction placed on the actual business models of direct sales companies, I mentioned I fight about 10 years ago in Korea, at that time the government had virtually illegalize the payment of fees and bonus of the fellows based on their actual sales of product. Direct sales companies were required to compensate the sellers based on a training requirement scheme, but honestly from the beginning, I certainly never figure out what the government wanted from that system to compensate our sellers for the training activities rather than their sales. That's not a case in Korea any longer. That law was changed.

Another government activity I have seen used regularly is licensing, licensing requirement. Licensing of sellers for various kind of activities or requirement they obtain government license to pursue certain kinds of direct sales activities. Imagine of

course a direct sales company having to tell their thousands perhaps hundreds of thousands of fellows in additional paper work they fill out and file with the company they would have to also seek license from the central government. And again this touches on what I believe is a very important concept and that is an independent contract nature of a direct seller, and the potential erosion of that independent status, obviously for a direct sales company to be held liable for activities of a seller activities which what company, number 1, not responsible for suggesting to a seller, and number 2, might not even be aware what is taking place would be quite a burden but I've seen government actions to move in the direction of violating this concept of separation between the direct sales companies and the sellers.

There's also threat in the large market some particular of dual regulation that is sets of laws restrictions developed by different government agencies which aimed to cover the same ground, I'll give you a specific example in Korea as we speak the Ministry of Health is moving to draft new regulations regarding to consumer protection, generally speaking, for the food supplement industry, and the problem there is 10 years ago also, the government, implemented a very broad law that covered in great detail consumer protection, product return, product quality, handling a grievance, so on and so forth, so there're a tendency for some government officials to attempt to re-invent the wheel, focusing on specific category of product such as health food supplement, or the cosmetic sector for instance.

As I conclude I'd like to touch the point, some of the key points I think we should keep in mind with respect to the area of regulation, and both chairman DeVos and my colleague Joe touched the point what I believe is perhaps the most important concept and that is we must take whatever measures we deem necessary to regulate ourselves, in contrast to government regulation, my colleague Joe is also from Washington DC and here you have 2 people from Washington DC calling for self regulation rather than government regulation, I think that is notable, we won't spread that word when we get back to Washington. Good companies have good business practices, good business model, they sell good product, they take care of their consumers, we know best how to take care of consumers. Time and time again I've seen government officials attempt measures to protect consumers when they simply have no ideas how best that should be done. I agree on the actions to educate government officials, present viable options to them, in the long one run work, so as long as we develop the trust with those officials that we're open, fair and honest, with respect to the advice we give them. We must do things ourselves and we would have things done for us by the central government. We should be aggressive in that respect in developing and fastening relationships with the relevant government officials or opinion makers in markets, not necessarily all government officials, there're heads of consumer advocates groups, their significant figures in major media, that's efforts takes time, thought, effort and it takes a process of thinking outside the box, as we say in English that it's sometimes a difficult concept for business people that to understand because it goes beyond their day to day business operations but in the long run, these opinion

makers rather than they're in the media sector, the government, competitors group, these are the folks who ultimately can have an enormous impact on doing business in their respective country. And after all, the economic benefit of this industry, the benefits are so clear as chairman DeVos mentioned, we offer benefits not only to consumer in terms of quality product, but also there're so many people with respect to economic, entrepreneurship opportunity and not just to those sellers as I was mentioned in this highlighted independent survey which I look forward to seeing, it offers ripple fact benefits to other industries as well. These things are not generally understood by opinion makers in our major markets we need focus serious attention on packaging those messages, working with local embassy representing your particular country's home base is important as we got keeping them involved, keeping them informed, because they obviously have their own contacts with the opinion makers.

There is strength in and numbers the World Federation itself represents the importance of that concept. And finally and related to the World Federation itself there's international at least regional component to DSA actions even in individual market. That is when we see problems in a single market for new regulation in a single market, that can be ripple effects on that action, the actions in a single market, such as, for example Korea, or Japan, to the most important markets in the world, actions, regulatory actions in those markets can have consequences in your market, and that's another fundamental aspect of regulation we should keep in mind.

Well I look forward to learning more about the industry; it's a fascinating one to me to not one in which I work day to day but I am still doing my best to understand it. Appreciate the opportunity to be here with you, thank you very much.