

Network Marketing: Exploitation of relationships – Myth or Reality?

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Abstract

The **Network Marketing**, first popularized by Amway, in 1950s in USA is gaining momentum in India. The total turnover of network marketing companies in India was estimated at Rs 301,044 crores in 2005 with an annual growth rate of 25%. The India Direct Selling Association (IDSA) has projected that the network marketing industry will be around Rs 8000 crores by 2010.

Studies have shown that consumers often have negative perception of direct selling organisations and network marketing organisations in particular. The aggressive selling techniques, exaggerations of facts in recruiting, pyramiding scams and unethical way of exploiting relationships all together form a basis for this negative perception.

The paper presents the exploitation of **Relationships** viz friends, relatives and colleagues and attitude of channel members in network marketing.

Keywords: network marketing, relationships

Introduction

Business organisations have long relied on direct marketing to target customers without spending a lot of money on retail distribution. However the Network (Multilevel) Marketers have taken the direct model one step further, i.e. not only they do the sales, but recruit and train new distributors i.e., independent sales persons who are members in the network marketing company. This 'ingenious' method was first popularised by Amway in 1950's.

The big draw card in network marketing is the commission paid not only for direct sales made by the salesperson, but also from the sales made by the recruits made by him. That is, if you get friends and relatives to join up, you get a commission not only from the products your friends and relatives purchase, but also from the sales they make to their friends (Bloch, 1996). This 'wonderful' opportunity attracts prospective candidates to join network marketing companies. Studies reiterate the fact that a 100 percent annual turnover rate among sales personnel in certain network marketing company is not unusual (Peterson & Wotruba, 1996).

According to the Direct Selling Association in the United States, 70% of the revenue from the direct selling industry was generated by network marketing companies (Coughlan & Grayson, 1998) and most of this came from the better known companies, such as Amway, Nuskin or Shaklee, that use multilevel instead of single level compensation plans.

In the case of India, network marketing momentum was conspicuous in India during mid 90's followed by the establishment of the Indian arm of Amway Corporation. The total turnover of network marketing companies in India was estimated at Rs.30,104 crores in 2005 with an annual growth rate of 25% (Tribute, 2006). Amway India, Avon, Tupperware, Oriflame and desi companies like Modicare, Hindustan Lever Network are the major network marketing players in the Indian market. Indian Direct Selling Association (IDSA) facilitates membership to genuine network marketing companies. The IDSA projection for 2010 for the network marketing industry is Rs.8000 crores. According to National Council of Applied Economic Research, the Indian middle class was projected to grow from 1.1 crore households in 2001-02 to 1.7 crore households in 2005-06 and the figure is expected to be 2.8 crore by 2009-10. The above figures justify the rosy picture of network marketing in India.

However, studies carried out by Peterson et al (1989), Raymond and Tanner (1994), and Kustin and Jones (1995), suggest that consumers often have negative perceptions of direct selling organizations and network marketing organization in particular. The aggressive selling techniques, exaggeration of facts in recruiting and pyramiding scams (Kustin & Jones, 1995)

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altogether formed a basis for this negative perception. Then there are others like Koehn (2001), who have dubbed MLM schemes as unethical, and guilty of ‘instrumentalising’ relations rooted in love and affection and as such is socially and psychologically unacceptable to most people in our society (Bloch, 1996).

The researchers in this study propose to explore whether such a phenomenal growth of network marketing in India is because of the exploitation of relationships with friends and relatives.

Objective of the Study

The specific objectives of the study are

1. To examine the exploitation of relationships in Network Marketing
2. To examine the differential effect, if any, of two types of relationships with Friends and Relatives in getting exploited in Network Marketing.
3. To examine whether the channel members are having a positive attitude towards their ventures.

The hypotheses of the study are::

1. H0: The Network Marketing is not likely to exploit the relationships.
2. H0: There will be no differential effect on exploitation of relationships in Network marketing between friends and relatives.
3. H0: The channel members of network marketing companies are not having a positive attitude towards the ventures.

Defining the terms used in the Study

Network Marketing

Network Marketing is a subset of direct selling and is also known as “multilevel marketing”, “structure marketing” or “multilevel direct selling”, (WFDSA, 2000). Network marketing can best be described as a direct selling channel that focuses heavily on its compensation plan because the distributors (members of the network) may receive compensation in two fundamental ways (Poon, 2003). First, sales people (distributor) may earn compensation from their personal sales of goods and services to the consumers (non-member of the network). Second, they may earn compensation from sales to or purchase from those persons whom they have personally sponsored or recruited into the network (down lines), these down lines continue sponsoring or recruiting to the network sharing the benefits with their sponsors or recruiters (up lines). Hence, the network marketing organization can be defined as “those organisations that depend heavily or exclusively on personal selling, and that reward sales agents for (a) buying products, (b) selling products, and (c) finding other agents to buy and sell products”(Coughlan & Grayson,1998)

Network marketing distributors purchase products at wholesale prices, and may either use discounted products themselves or retail the products to others for a profit. Suggested mark up usually ranges from 20% to 50%. In addition, distributors receive a monthly commission for their ‘personal volume’, which is the value of every product they personally buy or sell. Further, the distributors receive a net commission on the sales of those they recruit into the network.

The sales developed from network marketing are not developed solely from sales created by retailing, but also developed through recruiting or sponsoring independent distributors (Cheung, 1993). Thus, as distributors continue to recruit or sponsor new distributors to expand their network, the new distributors will contribute new sales to the network and gain commission in return (Coughlan & Grayson 1998). The multiplying effect on network marketing will expand when these distributors continue their recruiting or sponsoring efforts. This multiplying effect, an important element in the recruiting or sponsoring function, makes the network marketing quite different from other types of direct selling involving paid sales persons.

The sunflower and pyramid are the two common business models in network marketing. In sunflower model (Unilevel model), each distributor can develop as many nodes as possible, whereas in pyramid model (binary model) each distributor enrolls only just two people and they

in turn do the same. In the Unilevel model a distributor gets a business share of the total volume in his team and not money on registration. The product purchased is considered as the first registration. In binary model money is made through registration and the main income is from the dropouts (The Week, November 12, 2006).

Relationship

For the purpose of our study, the researchers define relationships as those with the emotional attachment and/or intimacy existing among relatives and friends. By relatives we mean closely related persons like siblings, parents, in-laws, cousins, nieces and such others. By 'friends' the researchers mean those persons who are dependable, trustworthy and loyal. All others, other than friends and relatives are grouped under the category of colleagues.

Methodology

The study was based on primary data, derived through a customer survey using pre-tested structured instrument (Questionnaire). In order to study the exploitation of relationships in network marketing, the researcher used the multi level marketing company, Amway and its network customers as the respondents. The said company is chosen because it is the leading firm in the Network marketing sector in Kerala and India.

The instrument consisted of questions pertaining to what motivated them to join Network Marketing Chain, whether the decision was rational or emotional, whether such a venture was profitable or not, and whether the same method was employed to recruit other members etc. The final questionnaire was prepared using a pilot study among one customer group, namely among the chain members of Amway at Changanacherry.

Data was collected from 140 respondents using convenient sampling method so that it should reflect the objectives of the study. The sample was drawn from Amway outlet at Ernakulam for 5 consecutive days while the channel members were in the outlets for getting products. They were approached with the questionnaire and data were collected. The sample of respondents were segmented and classified into three classes based on experience in Amway's network marketing. Out of 140 respondents, 48 were below 2 years, 57 between 2 to 5 years and 35 were above 5 years.

For testing hypotheses, Chi – square tests were administered at 5% level of significance.

Findings of the Study

1. Whether relationship exploited or not

Inferences

Table 1 show that, relatives and friends use the relationship to enrol channel members. The Chi – square test shows that there is no relationship between experience and person who introduced the respondents.

Table 1

Observed Frequencies					
Experience	Introduced by whom				Total
	Relatives	Friends	Colleagues	Others	
Below 2 years	23	15	8	2	48
2 – 5 years	31	18	6	2	57
Above 5 years	13	12	7	3	35
Total	67	45	21	7	140

Chi- Square value = 4.060601753 , Critical Value =12.59158724, *p*-Value = 0.668475488

2. Reason for joining

Inferences

Table 2 shows that majority of respondents were introduced by relatives and friends by persuasion. The Chi – Square test shows that the reason for joining is dependent of the person who introduced them to the network.

Table 2

Observed Frequencies					
Reason	Introduced by whom				Total
	Relatives	Friends	Colleagues	Others	
Persuasion	43	25	3	1	72
Expecting benefit	14	14	11	3	42
Attracted by Successful cases	10	6	7	3	26
Total	67	45	21	7	140

Chi- Square value = 21.37158327, Critical Value = 12.59158724, p-Value = 0.001572804 *

3. Exploitation of relationships in soliciting Business

Inferences

The Chi- Square test indicates that experience and person to whom they approach are related. Those who are having less than two years of experience approach mainly relatives, those who have 2- 5 years experience approached friends, relatives and colleagues, and those who have more than 5 years of experience approached mainly friends.

Table 3

Observed Frequencies					
Experience	Whom contacted				Total
	Friends	Relatives	Colleagues	Others	
Below 2 years	9	20	14	5	48
2 - 5 years	20	17	12	8	57
Above 5 years	19	9	5	2	35
Total	48	46	31	15	140

Chi- Square value = 12.79296, Critical Value = 12.59159, p-Value = 0.046444 *

4. Outcome of the venture

Inferences

Table 4 show that outcome is related to the experience. The majority of respondents above 5 years consider network marketing as career and those who are having experience between 2 -5 years mainly consider it as a source of additional income and career and those who are having less than two years of experience take it as an opportunity to earn.

Table 4

Observed Frequencies					
Experience	Outcome of the venture				Total
	A career now	Additional income	Attempt to earn	Time pass	
Below 2 years	8	19	15	6	48
2 – 5 years	22	25	7	3	57
Above 5 years	21	7	5	2	35
Total	51	51	27	11	140

Chi- Square value = 21.62220937, Critical Value = 12.59158724, p-Value = 0.001417262 *

Conclusion

The study found that there is exploitation of relationships in network marketing. People join the network marketing mainly because of persuasion by friends and relatives. Network members who were in the business for the last two years, contacted relatives more than friends and colleagues to join as channel members while those who had more than two years experience contacted friends more than relatives and colleagues.

Another way of looking at it is that Network members having less than two years experience in business were exploited more by relatives than friends and colleagues while those who have got more than two years experience were exploited by friends more than relatives and colleagues.

The primary motive of Network members who are in the business for upto five years was the additional income generation, whereas it has become a career for those who are above five years in this business. In summary, the conclusions drawn from the study are:

- The network marketing exploits the relationships viz friends and relatives. (Null hypotheses 01 is not supported).
- Both relatives and friends get exploited in network marketing. (Null hypotheses 02 is not supported)
- Despite this the channel members are having a positive attitude towards the venture.(Null hypotheses 03 is not supported)

Implications for Marketers

Marketers should be aware of the fact that network marketing foundation lies with relationships. It is up to the channel members to decide at what cost relationship may be selected, maintained and nourished. It should be a win-win situation with no exploitation of relationships whatsoever for it to be enduring.

Scope for further research

The study should be extended to other network marketing companies to get more insight to the intricacies of network marketing. The study will be enriched if the dropout in the network marketing chain is also incorporated in the study. The geographic, demographic and psychographic profiles of the network members should be considered for further studies.

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