

Multi Level Marketing : Does it lead to exploitation of relationships?

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Abstract

The Multi Level Marketing, first popularised by Amway, in 1950s in USA is gaining momentum in India. The India Direct Selling Association (IDSA) has projected that the Multi Level marketing industry will be around Rs 53,200 millions by 2012. Studies have shown that consumers often have negative perception of direct selling organisations and Multi Level marketing organisations in particular. The aggressive selling techniques, exaggerations of facts in recruiting, pyramidising scams and unethical way of exploiting relationships all together form a basis for this negative perception. The paper presents the reports evidence from a survey of respondents who work in MLM whether the relationships are frequently exploited in MLM. The evidence suggests that relationships i.e., friends, relatives and colleagues constitute main clientele base and network in Multi Level marketing in India.

Key Words : Multi Level Marketing, Pyramid Schemes, Negative Perception

INTRODUCTION

Business organisations have long relied on direct marketing to target customers without spending a lot of money on retail distribution. However the Multi Level (Network) 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 Multi Level Marketing is the commission paid not only for direct sales made by the salesperson but also from the sales made by those recruited by the salesperson. 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 Multi Level marketing companies. Studies reiterate the fact that a 100 percent annual turnover rate among sales personnel in certain Multi Level 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 Multi Level 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 case of India, Multi Level marketing got momentum during mid 1990's following the establishment of the Indian arm of Amway Corporation. The survey indicates that the total market size of Direct Selling Industry grew by 17% in 2008-09, to reach Rs 33,300 crore in 200-10. Amway India, Avon, Tupperware, Oriflame and domestic companies like RMP, Modicare, Hindustan Lever Network are the major network marketing players in the Indian market. Indian Direct Selling Association (IDSA) facilitates membership to network marketing companies. 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 Multi Level 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 Multi Level marketing organization in particular. The aggressive selling techniques, exaggeration of facts in recruiting and pyramidising scams (Kustin & Jones, 1995) 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).

In this study researchers propose to explore whether such a phenomenal growth of Multi Level Marketing in India leads to exploitation of relationships with friends and relatives.

1.1 ABOUT MULTILEVEL (NETWORK) MARKETING

Multi level Marketing is a subset of direct selling and is also known as "Network marketing", "structure marketing" or "multilevel direct selling" (WFDSA, 2000). Multi Level 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 Multi Level 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 Multi Level 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, 2006).

Relationship

For the purpose of the study, 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.

2. OBJECTIVE OF THE STUDY

The specific objectives of the study are

- To examine the exploitation of relationships in Multi Level Marketing
- To examine the differential effect, if any, of two types of relationships with friends and relatives in getting exploited in Multi Level marketing.
- To examine whether the channel members have a positive attitude towards their venture.

2.1 The hypotheses of the study are

1. H0: The Multi Level Marketing is not likely to exploit the relationships.
2. H0: There will be no differential effect on exploitation of relationships in Multi Level Marketing between friends and relatives.
3. H0: The channel members of Multi Level Marketing companies do not have a positive attitude towards the venture.

3. DATA COLLECTION AND RESEARCH METHODS

The study was based on primary data, derived through a survey using pre-tested structured instrument (Questionnaire). The instrument consisted of questions pertaining to what motivated them to join Multi Level Marketing Chain, whether the decision was rational or emotional, whether such a venture was profitable or not, whether the same method was employed to recruit other members etc. The final questionnaire was prepared using a pilot study among one MLM Network group.

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 & RMP outlets from Surat District 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 Multi Level marketing. Out of 140 respondents, 48 had experience 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.

4. FINDINGS

1. Whether relationship exploited or not

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

Inferences

Observed Frequencies					
	Introduced By Whom				
Experience	Relatives	Friends	Colleagues	Others	Total
Below 2 Years	23	15	8	2	48
2 to 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 Multi Level.

Observed Frequencies					
	Introduced By Whom				
Reasons	Relatives	Friends	Colleagues	Others	Total
Persuasion	43	25	3	1	72
Expecting Benefits	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 = 0.001572

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.

Observed Frequencies					
Experience	Introduced By Whom				Total
	Relatives	Friends	Colleagues	Others	
Below 2 Years	9	20	14	5	48
2 to 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 Multi Level 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.

Observed Frequencies					
Experience	Introduced By Whom				Total
	A career Now	Additional Income	Attempt To earn	Time Pass	
Below 2 Years	8	19	15	6	48
2 to 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

5. CONCLUSION

The evidence reported in this study suggests that there is exploitation of relationships in Multi Level Marketing. People join the Multi Level marketing mainly because of persuasion by friends and relatives. Multi level 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 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 Multi level 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 Multi Level marketing exploits the relationships i.e., friends and relatives, both relatives and friends get exploited in Multi Level marketing and despite this the channel members have positive attitude towards the venture.

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