
Network Marketing: Looking through a new window

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Abstract

Marketer today is driven by the objective of expending market, as the strategy to sustain in the competitive world. Globalization and rapid development of communication technology accelerated the scope of marketing across the nations. But total market has become saturated as new players have entered the existing market to get the share of profit. Modern marketing aims at profit not only through customer satisfaction but also through customer delight. Quality, affordable price and product availability can make the customer satisfied, but they become delighted only when they are provided with some benefits additionally beyond their normal expectation. Marketer must remain unquenched in search of creative instrument to expand their operation in the existing markets with a hope to harvest at least the existing profit if not more. Maintaining relationship with customer will keep the marketer concerned about customers' long term needs, problems and the way marketer can delight customer. Relationship is the foundation on which the network marketing stands. Relationship not only helps expanding the operation of network marketing company have but it also boosts the market with low promotional expenses. Given the existing marketing environment a number of network marketing companies exploited relationship, as a way their success. Thus, the impact of relationship that the network marketing mainly emphasizes on can be traced if the performance of some successful network marketing companies are evaluated and analyzed. This paper is an attempt in this regard along with developing a theoretical framework of network marketing.

Introduction

Salesman, engaged in selling process, attempts to create needs, makes customers aware of such needs and using his resourcefulness and imagination he persuades them to buy products aiming to satisfy their needs. The Customer trust grows so as the salesperson demonstrates dependability and develops relationship with the customer. "Relationship Marketing", Introduced by Kotler, signifies the importance of building good rapport with the customers. Exploitation of relationship has a pivotal role to play for marketing service products. This relationship also is gaining momentum for marketing of physical products as competition has intensified. Now-a-days product quality and price are not the only

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determinants of marketing rather marketers want to differentiate themselves through this relationship. Network marketing or Multi-level marketing (MLM) is a technique where relationships get encashed for promoting products. One more important feature of this technique is promotion through word-of-mouth communication only. Network marketing does not resort to advertisement which is a costly affair of the business. So when marketers were in search of an innovative way to reach the customer with minimum cost, network marketing appeared with the opportunity they desired. This paper presents the performance of some network marketing giants through analysis and evaluation to portray the success of relationship marketing and the innovative approach network marketing resorts to.

Literature Revisited

According to Mathews et al (2007) network marketing depends on the exploitation of relationships. In order to study exploitation of relationship, researchers selected Amway India Ltd. and its network customers as the respondents. They have concluded that people join the network marketing mainly because of persuasion by friends and relatives. Network members in their early stage, who are in the business for less than two years, contact relatives more than friends and colleagues to join as channel members while at the later stage, those who has more than two years of experience, contact friends more than relatives and colleagues.

Cecilia Ong See Kiaw and Ernest Cyril de Run (2007) have identified the reasons behind joining and continuing in the industry. They found the main reasons for joining and remaining in MLMs are financial independence, personal freedom, types of products and benefits, product credibility and incentives. Their findings indicate that the desire for money and product features make respondents to join and stay on. They suggested the management of MLM companies should look more into the development and promotion of the product rather than the method of selling.

Subramanian (2007) emphasized on the wide scope of network marketing business in India as only a few companies do this business in a professional way. He suggested the aggressive mindset of Indians to work

hard can create a tremendous opportunity if the product divisions are innovative and attractive to create a good impact on the market.

Objective of the Study

Marketing, being a process involving conversion of potential exchanges into realized exchanges, considers mostly two sets of variables – markets, and human needs and wants. Network marketing is gaining pace presently due to its foundation - the relationship marketing, the most innovative way of widening market area incurring lesser amount of cost. But the existing literature does not relate this new approach to the performance of network marketing companies candidly mirrored on their increased profit base and growth. In this context the present paper aims –

- i) To develop a comprehensive theoretical foundation as a frame of reference for conducting the study.
- ii) To evaluate the performance of some network marketing giants.
- iii) To study the growth of network marketing in India.

To suggest measures for improving the performance of network marketing companies.

Drawing a fence between Direct Selling and Network marketing

Driven by the objective of developing a comprehensive theoretical foundation, one aspect needs to be crystallized which often creates a difficulty in understanding. Similar to direct selling, network marketing also emphasizes and stands on both direct and indirect relationships. But looking at the potentiality of network marketing in the days coming, one must know network marketing in isolation to direct selling. Network marketing is the movement of products or services from the manufacturer to the consumer directly through distributors using word-of-mouth marketing (Nichols, 1995; Marks, 1996). One of the core elements of network marketing is the multiplying effect, which makes it distinctly different from other direct selling. In types of direct selling such as insurance selling, the sales force can be made up of waged salespersons. However, the salespersons (distributors) in network marketing are not employed,

they are recruited or sponsored. The sales generated from network marketing are not developed solely from sales created by retailing, but are also developed through recruiting or sponsoring independent distributors. Simultaneously, distributors may earn compensation from sales or purchases of other distributors having been sponsored within the network of 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 and Grayson, 1998). The multiplying effect in network marketing will expand when these distributors continue with their recruiting or sponsoring efforts. This multiplying effect, an important element in the recruiting or sponsoring function, makes network marketing quite different from other types of direct selling involving paid salespersons.

Network marketing companies, such as Amway and Nutri-Metrics (Short, 1995), that apply multi-level compensation plans, have payment structures quite different from those of direct selling companies, such as Avon and Tupperware, that have single-level compensation plans (Moore, 1998). Companies that make use of the multiplying effect use a multi-level payment structure, and are regarded as network marketing organisations, or multilevel direct selling companies. Direct selling companies that apply a non-multi-level payment structure such as a single-level payment scheme are regarded as single-level direct selling companies or again, general direct selling companies.

One core distinction between the multi-level payment system and the non-multi-level payment system is the depth of the network. As the multiplying effect in network marketing focuses on the duplication of

distributors, more levels of payment will encourage distributors to recruit more widely from their network, resulting in the gaining of more commission (Coughlan and Grayson, 1998). There exists a limited number of references that actually define the number of levels. Moore (1998a) described multi-level as "the various levels tagged for pay-out on a sales organisation created by an individual distributor". The expression "various levels" were used to imply more than two levels as it comes through common understanding but does not define the actual number of levels.

Transcending horizons by Network Marketing

Accelerated growth of network marketing companies leading to transform the way of marketing indicates the present relevance of exploiting relationship. Performance of network marketing companies and exploitation of relationship are highly intertwined as the former depends mostly on the latter. In the present study two leading companies, Oriflame and Amway have been considered to be evaluated and analyzed through their sales potential, trend in sales, growth pattern of sales and profit.

Oriflame: Having been established in Sweden in 1967 Oriflame primarily ran as a cosmetics company that sells high-quality natural skincare and cosmetic products through an independent sales force, outside the traditional retail environment. Presently Oriflame is one of the fastest growing beauty companies that sell directly to their customer. The presence of Oriflame is in 61 countries, of which Oriflame is the market leader in more than half. Table 1 reflects annual growth rate of different items which helps the company to create its strong presence worldwide. The following tables help us to assess the growth opportunity that the Oriflame can exploit for its success.

Table 1: Annual Growth Rate

Items	2004-2005	2005-2006	2006-2007	2007-2008
Net Sales	14.16%	19.88%	20.86%	18.95%
Selling and Marketing Expenses	18.64%	20.54%	24.85%	28.71%
Gross Profit	12.75%	21.41%	22.56%	16.87%
Operating Profit	(6.35%)	23.90%	1.99%	37.86%
Net Profit	8.44%	8.37%	(1.63%)	35.24%

Table 2: Different Ratios (expressed as percentage on sales)

Ratios	2004	2005	2006	2007	2008
Selling and Marketing Expenses to Net Sales	34.91%	36.28%	36.48%	37.69%	40.78%
Gross Profit to Net Sales	69.13%	68.27%	69.14%	70.11%	68.88%
Operating Profit to Net Sales	16.33%	13.39%	13.84%	11.68%	13.54%
Net Profit to Net Sales	11.86%	11.27%	10.19%	8.29%	9.43%

The company offers a wide range of high-quality beauty products as it appears with a unique opportunity for the sales persons to join and start their own business. As of today, company's sales force consists of 2.8 million Consultants who are engaged in marketing their products around the globe. The following figures give an exposure to the success story of Oriflame as a network marketing company over the globe. Figure 1 depicts increasing sale potential of the group over the years reflecting the success of the company and its future growth opportunity. Though in Asia the company's sales potential was not fully exploited, but its gradual growth in sales per quarter ensures tremendous opportunities in near future (Figure 2). Sales of consecutive years show positive growth (Figure 1) but both Table 1 and Figure 3 show growth rate of 2007-2008 does not follow the same trend of the previous years. The growth rate of selling

and marketing expenses shows increasing trend to capture the total market. Gross profit, operating profit, and net profit, more or less, reflects positive growth rate with some exception due to existence of exceptional items in the cost structure of the company. As an increasing trend in sales is present, there should be an improvement in profit figures (both operating and net profit) which is reflected in Figure 4. Profit is one of the motivating factors for any company. Different ratios have been calculated to know the profitability position of the company. Table 2 reflects profitability position is stable though selling and marketing expense ratio shows positive growth rate to keep its existence worldwide. Oriflame must establish its brand name in Asia, Latin America and some other countries of the world to increase its sales, profit and market share.

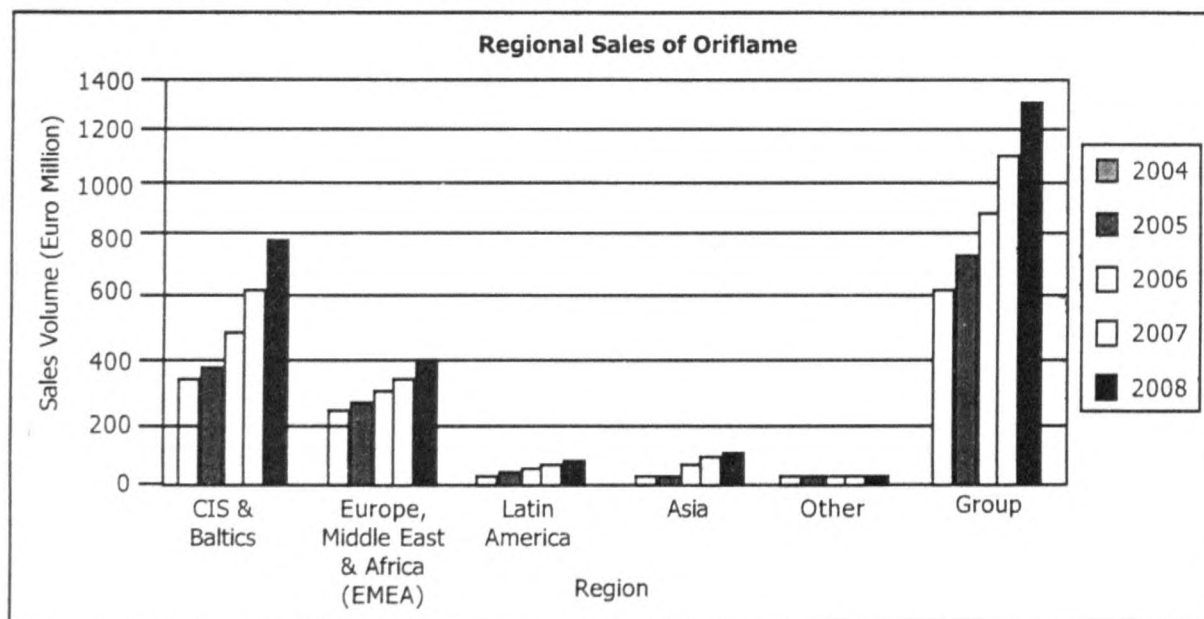


Figure 1

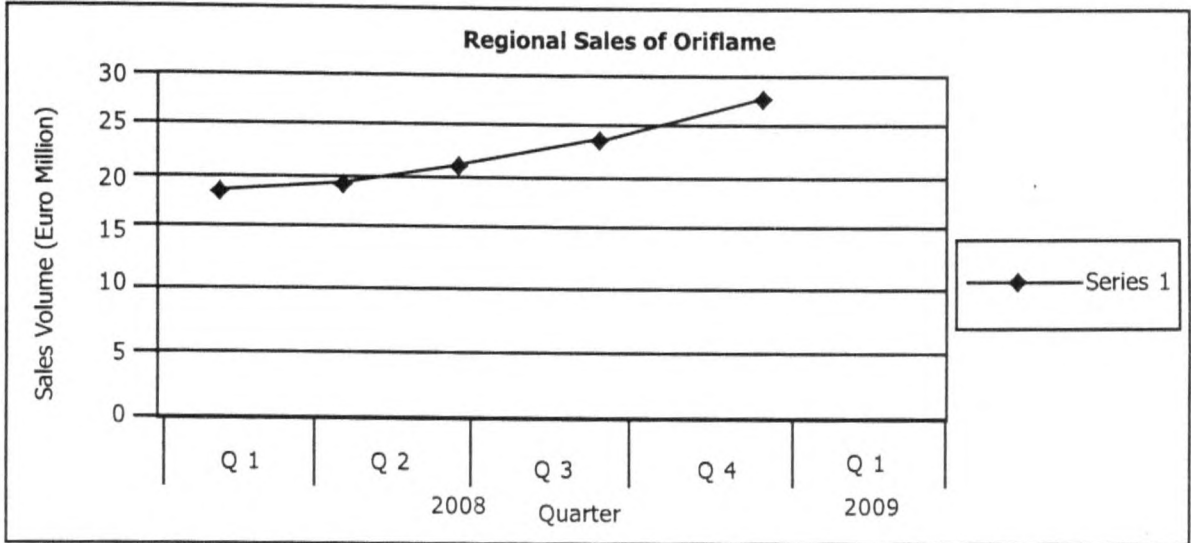


Figure 2

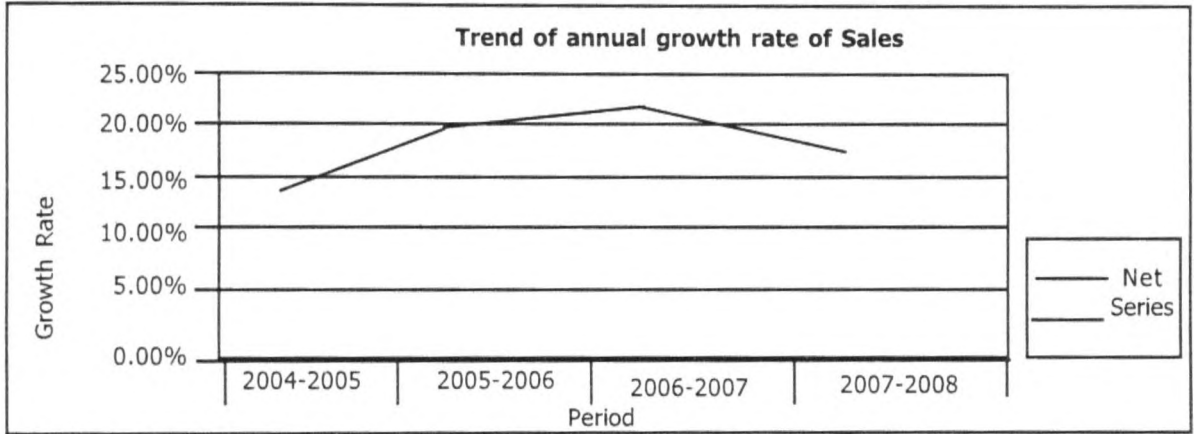


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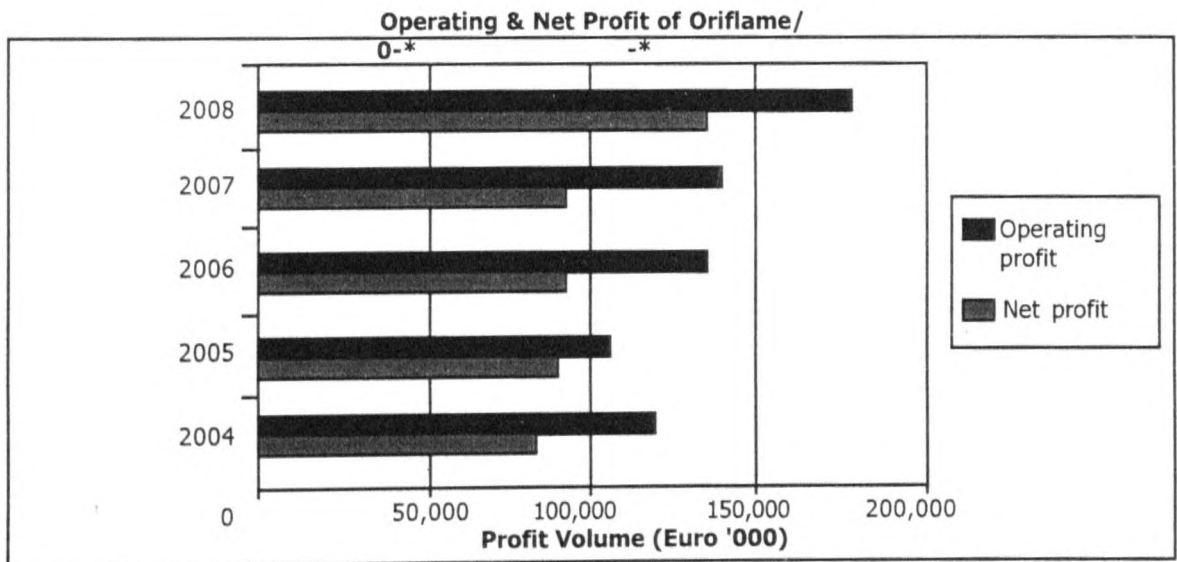


Figure 4

Amway: "American Way", being abbreviated as Amway was established in 1959 by Jay Van Andel and Richard DeVos. Amway Corporation successfully established itself as a leading multilevel marketing company, built on strong values and founding principles that continue to sustain the company today. The philosophy of their business is to build a strong

sales force by integrating and helping people leading to better lives. The following tables and figures reflect the success story of Amway in terms of sales volume and profits of last five years. The following figures justify the rosy picture of network marketing once again.

Table 3: Annual Growth Rate

Items	2004-2005	2005-2006	2006-2007	2007-2008
Sales Revenue	11.18%	42.80%	19.34%	10.45%
Net Profit	3.70%	55.77%	8.64%	7.95%

Table 4: Different Ratios (expressed as percentage on sales)

Ratios	2007	2008
Gross Profit to Sales	30.83%	31.22%
Selling and Administration Expenses to Sales	8.84%	9.76%
Net Profit to Sales	14.73%	15.05%

Table 3 and Table 4 depict the Amway's performance which is not remarkable one, but growth opportunity is there in near future as both gross profit and net profit show increasing trend (Figure 6). Table 3 reflects negative growth rate of sales revenue in 2006-2007, but in 2007-2008 company was able to regain its position. As competition intensified due to the

existence of new players in the market, company invested more in selling and also on distribution. This is probably the reason behind the negative growth rate of sales in 2006-2007. But upward line of net profit signifies its efficiency in business operation which will bring success in future.

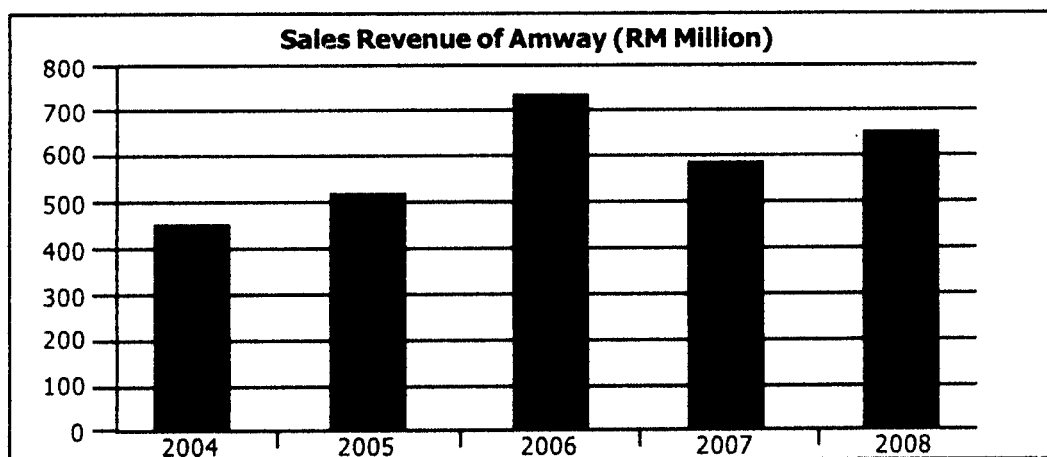


Figure 5

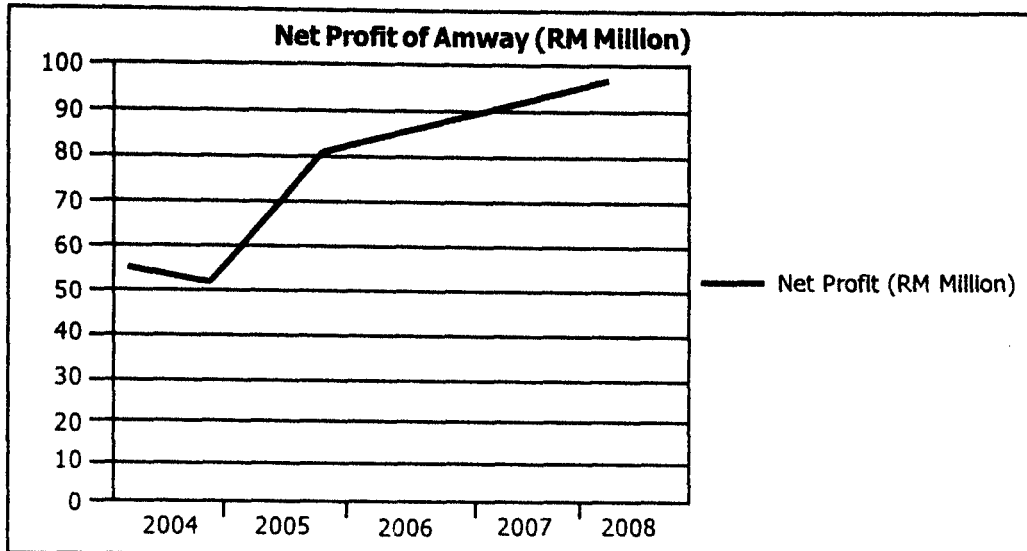


Figure 6

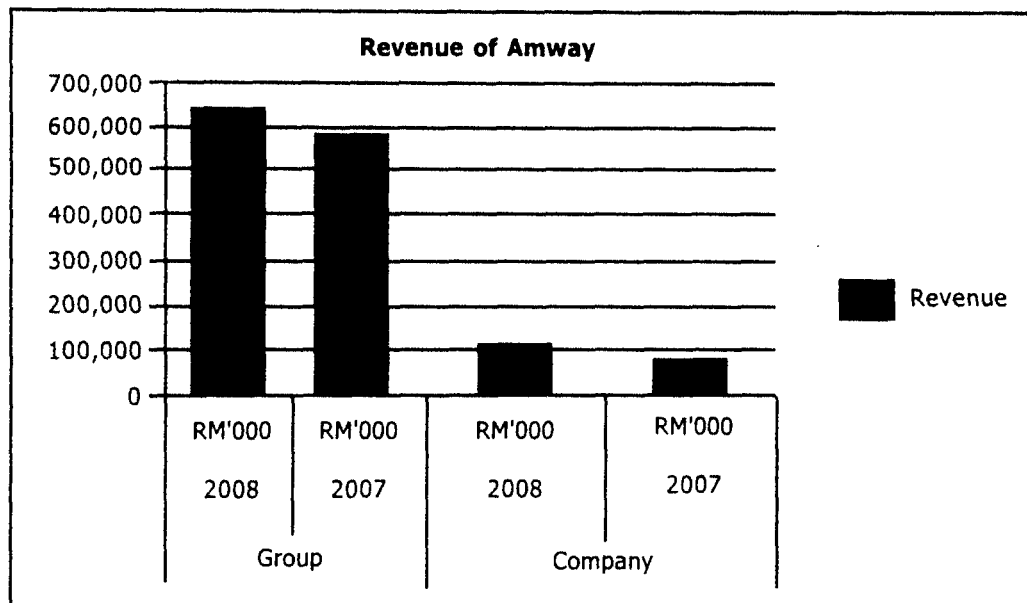


Figure 7

Awaiting dawn in India

After liberalization, Indian economy stands to be indeed one of the most crucial destinations of economic development where network marketing is relatively a new concept. Early birds like Amway India, Oriflame, Avon, and Tupperware are some of the companies who introduced the concept of direct selling and MLM to the people of this country. The success story of these companies has made a paradigm shift in the

Indian consumer market. Network business in this country accounts for a total of about 100 billion dollars in retail sales annually.

In the present day, the Indian MLM industry is witnessing a significant increase in the number of independent distributors though they are not that much serious in this business; rather they foster a dream of being rich within a short span of time. The Indian Direct Selling Association (IDSA) projection for 2010

for the network marketing industry is Rs.8,000 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 2.8 crore by 2009-10. The above figures demand a special attention to be given to the network marketing in India expecting a strong future prospect. The above scenario of the MLM industry in India argues in its favor that the industry is witnessing positive notes from business sector, as more and more companies are going the MLM way.

Walking along the effective Network Marketing

While designing strategy the network marketing requires that the organization must assess and evaluate its target market. But in most cases it fails due to inaccurate information of its potential prospects as well as the turbulence that the marketing environment bears with it. Therefore, the marketers must consider the following while developing strategies in network marketing business.

1. To develop a network marketing plan after evaluating the marketing environment perfectly.
2. To give full concern for the customer and prospect, keeping in mind that the customer lies in the pivotal point of marketing operations.
3. To educate the customer about the product and also to educate the business associates / distributors about the business opportunities.
4. To demonstrate the usage of the product to the customer aiming to gain their confidence.
5. To develop alliances, and partnerships in the business community of network marketing.
6. To develop and implement a strategic referral system and also to offer incentives for referrals and give as much perceived value as possible. This will facilitate development and growth of the business.
7. To develop a long-term relationship with the customer and prospects to build customers' loyalty and trust.
8. To induct an appropriate sales promotion tool for increasing the sales volume of the products and also clarify the prospects the reason to buy.

Hurdles of Network Marketing

Network marketing too bears some drawbacks inherent under normal business conditions.

First, like the classical chain letter, network marketing is a winner so long the network keeps growing unbroken. But if the link fails at many a place, the entire distribution-cum-sales pyramid will become a ground zero.

Second, in the MLM system, the distributors often face the irritant behaviour of the prospect.

Third, distributors are also customers in most cases resulting the losing distributors to create shrinkage in the customer base.

Fourth, in the MLM system, the sellers cannot register control over the sales persons to the extent they desire, as the sales forces are not employees of the company.

Fifth, the sales persons-cum-distributors often reduce prices arbitrarily in order to meet their sales targets. As a result, the equity of the brand suffers. Sometimes, some sales people use high-pressure tactics, obviously spoiling the reputation of brand.

Sixth, MLM lays excessive emphasis on meeting people and making friends, promoting a behavior artificial in most cases.

Seventh, sales forecasting is usually a more difficult in MLM method. So, incidence of mismatch between supplies and sales, and consequent piling up of inventories mounts to be more in MLM.

Finally, in India, the government too does not seem to be favourably disposed towards the MLM concept.

Paving the way of Success

The study appears with significant findings having important policy implications for making the performance of network marketing companies doing

business in India better. On the basis of those findings, the following suggestions can be prescribed for improving the sales, growth, and profitability of network marketing companies operating in India.

1. Network marketing companies should carry out programs to popularize network marketing in the country.
2. Network marketing companies should provide economy pack for all products to penetrate rural market.
3. Network marketing companies should offer competitive price to increase affordability and acceptance in Indian market.
4. Network marketing companies should exploit mass media communication.
5. Marketers should be aware of the fact that network marketing foundation stands on relationships. It depends on the channel members to decide at what cost relationship may be selected, maintained and nourished.

Conclusion

Based on the study and success story of Oriflame and Amway, it can be concluded that network marketing companies have plenty of market opportunity not only in the developed countries but also in the developing countries. The study shows the positive growth of network marketing in Asia, but keeps it far apart in comparison to other countries of the world. The reason behind this may be its high price and low promotional activities. Another vital reason may be lack of knowledge about network marketing concept among the consumers in rural areas because prospects in these regions bear a mental block for the acceptability of the products sold through network marketing instead of retail shops or general stores. They have more confidence in the integrity of products widely available through retail outlets. Thus, network marketing companies will have to transcend this limitation by educating prospect through mass media communication, to experience a flourishing growth in the underdeveloped areas for the days awaiting tomorrow.

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