

# Multi Level Marketing: - An Exploitation of Relationships

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**Abstract**—The Multi level Marketing, first popularized by Amway, in 1950s in US is gaining pace in India. The annual growth rate of the Companies in MLM business is expected to be 25%. The India Direct Selling Association (IDSA) has projected that the MLM industry will be around Rs 8000 crores by 2014. Studies show that consumers have negative perception regarding Direct Selling organisations and MLM organisations in particular. The aggressive selling techniques, continuous persuasion by agent, exaggerations of facts in recruiting, boosting of lifestyles of upline members, pyramid scams and unethical way of exploiting relationships all together form a basis for this negative perception.

The paper presents the exploitation of relationships viz. family, friends, colleagues and attitude of channel members in MLM business.

**Keywords**—MLM(Multi Level marketing), relationships ,upline members.

## I. INTRODUCTION

More and more companies today are selling their products and services directly to customers without intermediaries and are thus identifying new prospects through a process called direct marketing. Peterson defines direct selling as “face to face selling away from a fixed retail location”. (Peterson, Alba& Ridgway 1989). 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 trump 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 ‘special’ 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 multilevel marketing companies (Coughlan & Grayson, 1998) and most of this came from the better known companies, such as Amway, Nuskin, Oriflame, 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.40,104crores in 2014 with an annual growth

rate of 25% (Tribute, 2015). 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) altogether formed a basis for this negative perception. Then there are others like Koehn (2001), who have claimed MLM schemes as unethical, and guilty of ‘exploiting’ 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.

## II. OBJECTIVES OF THE STUDY

**The specific objectives of the study are:**

1. To examine the exploitation of relationships in Multilevel Marketing.
2. To examine the differential effect of two types of relationships with Friends and Relatives in getting exploited in Multilevel Marketing.
3. To examine whether the downline members are having a positive attitude towards their business

#### Hypothesis of the Study are:

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

### III. DEFINING THE TERMS USED IN THE STUDY:

#### Multilevel Marketing

The term “network marketing” specifically is 20th century creation. Its genesis lies in the post World War era of the late 40s and early 50s. The development of the concept of network marketing and its first use has been credited to Nutrilite , a US based direct selling organization. In the mid 1940s the company was involved in the production and sale of food supplements, for which it had developed a very particular and unique method of marketing. In essence the organization’s compensation programme encouraged each of its salespeople to build up their own independent teams which were in turn responsible for selling and distributing the company’s products. Salespeople were rewarded proportionately according to the contribution that they were able to make to the overall profits of the company (Biggart, 1991).

The sales team was thus rewarded not only for the sales they themselves initiated, but also for those initiated by the individuals they had introduced to the organization. It is this characteristic which distinguished network marketing from other forms of direct selling. many of their new sales recruits were friends and family of their existing sales force. These new recruits’ primary motivation to becoming sales associates was that they wanted the products for themselves at the wholesale cost. Thus the company recognized that it was easier to build a sales force with a lot of people who sell a small amount of product, than it was to find a small number of top sellers who would move mountains of product. Revolutionary sales compensation model encouraging their salespeople to invite new representatives from satisfied customers, most of whom were family and friends. Each of those new representatives in turn had the same right to offer the product and opportunity to become a representative to others. This allowed the sales force to grow exponentially. The company rewarded its representatives for the sales produced by their entire group or network of sales representatives. And so multi-level marketing was born (Wojnowski, 2007)

Multilevel marketing thus is a way of distributing products or services in which the distributors earn income from their own retail sales and from retail sales made by their direct and indirect recruits. As a form of direct selling, MLM involves non store retailing based on face to face communications between a selling representative and a potential buyer (Brodie, Stanworth&Wotruba, 2002) .

One salient characteristic of network marketing exchange is the existence of seller customer social ties stemming from kinships or friendships prior to the transactions. The governance of the social ties, the future exchange possibility and the indiscernible social interaction in the network marketing exchange illustrate that it manifests the “Socially Embedded Exchange” (SEE) concept. Customers are ambivalent to recognize the accurate meaning, rewards and applications of the exchange. This ambiguous situation likely causes tension in the personal relationship between sellers and customers. (H .Ho 2002)

#### Relationship

For the research purpose, we define relationships as those with the emotional bonding attachment and or intimacy between relatives and friends. By relatives we mean closely related people like siblings, parents, cousins, in laws, nieces and uncles-aunts. By friends we mean who are dependable, trustworthy and loyal people with whom you enjoy spending time. All others are grouped under the category of colleagues.

### IV. METHODOLOGY

The study is based on primary data , derived through survey of customers using pre structured Questionnaire. In order to study the exploitation of relationships in multilevel marketing, the researcher used the multi level marketing company, Amway and its network customers as the respondents. The company Amway - is chosen because it is the leading firm in the Multilevel marketing sector in India.

The instrument consisted of questions pertaining to what inspired them to join Network Marketing Chain, whether the decision was intentional or forceful, whether such a business was profitable or not, and whether the same methodology was employed to recruit other members also etc. The final questionnaire was prepared using a pilot study among one customer group, namely among the chain members of Amway at Jaipur.

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 Jaipur 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 their experience in Amway’s multilevel 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.

### V. FINDINGS:

#### 1. Whether the relationship exploited or not

##### *Inferences*

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

Table 1

Observed Frequencies					
	Introduced by whom				
Expierenc es	Relati ves	Frien ds	Colleagu es	Othe rs	Tot al
Below 2 years	23	15	8	2	48
3-5 years	31	18	6	6	57
Above 5 years	13	12	7	3	35
Total	67	45	21	7	140

Chi –Square value=4.050517, Critical Value= 12.6, p-Value= 0.66

### 2. Reasons for joining

#### Inferences

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

Table 2

Observed Frequencies					
	Introduced by whom				
Reason	Relat ives	Frien ds	Colle agues	Oth ers	Total
Persuasion	43	25	3	1	72
Expecting Benefits	14	14	11	3	42
Attracted by Successful members	10	6	7	3	26
Total	67	45	21	7	140

Chi-Square value= 21.3, Critical Value= 12.59 and p-Value= 0.0015712804

### 3. Exploitation of relationships in procuring Business

#### Inferences

The Chi –Square tests indicates that experience and person to whom they contact for business are related. Those who have experience less than 2 years mainly contact relatives, those who have 2-5 years of experience contact friends, relatives and colleagues and those with more than 5 years of experience contact friends mostly.

Table 3  
Observed Frequencies

Observed Frequencies					
	Whom Contacted				
Experience	Relatives	Frien ds	Colle gues	Others	Total
Below 2 years	9	20	14	5	48
3-5 years	20	17	12	8	57
Above 5 years	19	9	5	2	35
Total	48	46	31	15	140

Chi-Square value= 12.79, Critical Value= 12.59 , p-Value=0.046

### 4. Outcome of the Business

#### Inferences

Table 4 shows that outcome of the business is related to the experience. The respondents with experience of 5 years and more consider multilevel marketing as a career and those with 2-5 years of experience consider it as an additional source of income. Those with less than 2 years experience feel it as an opportunity to earn money.

Table 4

Observed Frequencies					
	Outcome of the Business				
Experience	A Career	Additio nal Source income	Attempt to earn more	Tim e Pass	Total
Below 2 years	8	19	15	6	48
3-5 years	22	25	7	3	57
Above 5 years	21	7	5	2	35
Total	51	51	27	11	140

Chi-Square value= 21.622, Critical Value= 12.59, p-value =0.0014

### VI. CONCLUSION

The study found that there is exploitation of relationship in multilevel marketing. People join the MLM business because of the persuasion by relatives and friends. Network members with less than two years of experience in the business, contacted relatives more than friends and colleagues, to join the MLM business. While those who had more than two

years of experience contacted friends more than family and colleagues.

Another way of looking at it is that network members who were in business for two years and less were exploited more by relatives than friends and colleagues while those who were in the business for more than two years were exploited by friends more than relatives and colleagues.

The members who were in the business for 5 years their primary motive is additional source of income generation, whereas it has become a career for those who were in the business for more than 5 years.

In summary the conclusions drawn are:

- The Multilevel marketing exploits the relationships viz friends and relatives.
- Both relatives and friends get exploited in multilevel marketing.
- In spite of this the channel members are having positive attitude towards the business of multilevel marketing.

### 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. Marketers should take due care that the people's relationships are not exploited because of their pressure.

### Scope for further research

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

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