



MULTI-LEVEL MARKETING (MLM) FOR SOCIO-ECONOMIC DEVELOPMENT

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ABSTRACT

Multi Level Marketing (MLM) is embracing more and more arenas today. Insurance business is just one among them. Selling Insurance policies, traditionally, is considered as a de-motivating and dragging job. Well, not until you discover the power of MLM to boost policy sales. With the competition heating up in the Insurance sector, companies are looking for innovative methods to spread the message and garner maximum business in shorter time. Many local MLM companies having quite large spread in the market are joining hands with leading insurance brands to promote their products along with an assortment of their own products. Insurance sector makes available long term debt for the economic development of the country. At the same time, the MLM route provides employment opportunities to lakhs of people and enhances their social status. The MLM members also get tremendous opportunity to develop themselves personally. This multiple role of MLM companies can be looked at as a social contribution and these companies or cooperatives are emerging as a development oriented social movement. This article studies the economic and social impact of MLM as a tool which can influence society through employment generation, mobilizing long term funds and improving quality of life of people.

INTRODUCTION

Business organizations 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 popularized by Amway in 1950's [1]. 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



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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. 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 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%.

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 [2]. 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 altogether formed a basis for this negative perception [3]. Then there are others like Koehn (2001), who have dubbed MLM schemes as un-ethical, and guilty of 'instrumentalising' relations rooted in love and affection and as such is socially and psychologically unacceptable to most people in our society.

DEFINING THE TERMS USED IN THE STUDY NETWORK MARKETING



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Network Marketing is a subset of direct selling and is also known as “multilevel marketing”, “structure marketing” or “multilevel direct selling”. 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. 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 organizations 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” Network marketing distributors purchase products at wholesale prices, and may either use discounted products themselves or retail the products to others for a profit [4]. 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.

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. 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



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registration and the main income is from the dropouts.

MLM CONCEPT REVISITED

It is common knowledge that MLM works on the concept of time leverage. A work to be done by you in 100 days can be completed in one day if you have 100 people under you (in a chain) doing one day's work [5]. You earn a % of incentive for the work done by each of these 100 people. Though it is given various names like Network marketing, freelance marketing, chain marketing (money chain in a negative sense), the basic principle is that a happy consumer brings in more customers for which he is getting an incentive.

The net work plan or income schemes vary from company to company. The more reputed companies in MLM in India and abroad are, Amway, Modicare, Oriflamme, Tupperware, Quantum, RMP, Goodways, Placement Services etc. All these companies have web based information system where a member can monitor the growth of his down line memberships, incomes accrued etc. The visible part of the network is a distribution center (for product based MLM) and weekly meetings of members and prospective members to explain the business plan, demonstrate products, recognize the achievers etc.

INCREASING AGENCY MARGINS ON PRODUCTS

Average margins on first premium for policies like ELSS have gone up in the range of 30 to 40%. This has given the leverage for structuring the insurance sale through MLM. Though a conventional LIC agent is reluctant (forbidden by IRDA) to pass on any 5 of his commission to the client, MLM companies , in anticipation of bulk business and cross selling opportunities part with or reinvest a major % of their insurance commission to the members of the network (as per a business plan) [6]. This huge incentive makes the investment in insurance very attractive for a member, especially those who are in the tax brackets and must invest in tax saving instruments.

PROS OF NETWORK MARKETING

MLM is a marketing function in which sales people are paid for their personal contribution as well as for



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the contribution of the persons they recruit in to the function or process. The initials MLM stand for multi level marketing; this is inspired by the way it operates; that is on different levels of the function. It acknowledges personal as well as group contribution attributed to that person. Employees or sales people are allowed to get their own people in to the team from which they get a reward on the achievements made by the sales force. The idea has brought about many advantages to the market. It involves direct marketing and network marketing.

One of the advantages of MLM is the contribution it makes to economic growth. It makes it possible for the national income to continuously grow. This leads to improved living standards and better resources for deployment to areas affected by problems. This is made possible by government taxation.

The idea enables you to create new friends and relationships. It is an easy way of developing new networks while going around doing your business. The people you recruit and those who recruit you can become your friends. They will offer you business as well as personal support.

The idea also helps marketing organizations to curb periods of high demand. When the demand is too high and the current employees cannot meet, those are recruits come in to fill the position. It is this that employees are encouraged to bring more employees for the organization to ensure operations are not stopped. It ensures continuity if operations at all times.

MLM is also a very important function in providing jobs for the jobless. The recruitment process looks for young jobless people and earns them an income from which they can support themselves. It is fun and a happy feeling to know that you are working and at the same time providing opportunities for the less fortunate to support them. It is also fun knowing that giving someone a job will increase your pay.

The idea presents people with great and better learning of the MLM strategy. When people are recruited in to the business, they are trained about its functions. This training acts as a good way of future advancements in the field. It also helps those individuals to use the knowledge to their advantage once they leave the job. It is a good starting point for future success in the sales or marketing department as a



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whole.

The job presents flexibility in hours of work. One can work at any time they feel fits in their schedule. The vital thing is that they achieve the set targets. It also allows one to be feel like their own boss because of the freedom they get. They work under their own supervision, giving more freedom on the work.

NETWORK MARKETING TRENDS IN INDIA

The idea of Network Marketing has mushroomed as a universal concept in the last few years. With brands like Amway, Herbalife, Oriflame, and Tupperware having become household names, people are beginning to recognize the benefits and advantages of this unique business model [7]. But is Network Marketing or Direct Selling as it is also called, all about 'Get rich quick' with minimal effort? Or is it a well-positioned scam where, whether you get rich or not, you sure lose your closest friends and relationships? The answers lie in a clear understanding of what this concept is all about.

Multi-Level Marketing or Network Marketing or Direct Selling is exactly what it claims to be - referring products or services directly to consumers within your network. It involves building a network of people who join you in business and who in turn expand their network, thereby increasing your outreach. For each referral made by the network, the preceding link or 'upline' as these individuals are called in Network Marketing terms, gets a certain percentage of commission.

Unlike conventional marketing, the main criterion in Network Marketing is that you need to first be convinced of the product/service you are referring. Meaning, you need to be a user of the product or service that you would eventually be referring within your network. Like any other business model, to be successful in Network Marketing, you will need to possess the following:

- Ability to put in lots of hard work, in fact twice as much as in a regular job or business
- Willingness to learn new and diversified skills
- Ability to discipline your disappointments
- Lots of patience
- Willingness to dedicate a few hours every day to your business



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- Ability to network with like-minded people who can help expand your business
- Due diligence to keep a watch on your industry and be abreast of the latest happenings and current/future trends
- Skills in developing connections that can eventually help grow/expand your business

One of the main questions arising in anyone's mind when talking about the Network Marketing industry is 'Is this business model really workable, or is it just a sham?' While having this doubt is totally justified, it is also a known fact that the direct selling industry is fast growing and has the distinction of creating the maximum millionaires every year [8]. Of course, there are a few do's and don'ts that you need to keep in mind before venturing into a Network Marketing business:

- Before you sign up with any Network Marketing company, make sure you check the credentials of the company, the product/services on offer, current company network strength, and whether the company has a physical presence in India.
- In particular, make sure that the management team on the Board of Directors of the company are accessible either through e-mail or phone and verify their credentials and background.
- Check if the product/service that you are planning to market and refer has a certain appeal in the market. There is no point venturing into something that has no market.
- Ensure that your direct upline (the person who sponsored you into the business) is accessible 24X7 and answers all your questions satisfactorily. A good upline provides adequate training to his/her partners so you need to choose your upline wisely.

If you keep these few pointers in mind, Network Marketing can offer various benefits like:

- Lower initial cost of setting up your business
- Excellent training and product/service knowledge from industry experts
- Opportunity to earn additional/residual income with a greater chance to move into a full-time earned income model
- Flexibility to work at your own pace and time
- Choice of retiring whenever you want



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- Excellent travel opportunities
- Opportunity to meet, associate and interact with positive and like-minded individuals

Network Marketing is governed by the World Federation of Direct Sales Association (WFDSA), a body that regulates the way Network Marketing companies conduct their businesses. WFDSA lays down specific guidelines for all Network Marketing businesses worldwide. While the traditional Network Marketing business model had its own pitfalls, the scenario is changing rapidly today thanks to the proliferation of the Internet and the presence of a structured regulatory body [9]. Many people are venturing into their own home-based direct selling businesses on a full-time basis, as an effective alternative to conventional modes of employment.

The emergence of Network Marketing as a lucrative business model has found its way into academics too; several universities today offer specialized courses in Multi-Level Marketing.

In an interesting survey on Network Marketing trends in India conducted by Be A Networker (BeAN), it has been found that there is a growing acceptance of Network Marketing as a mainstream profession in India, with a wider outreach in the metros. Excellent quality products coupled with friendly and interpersonal services account for the success of Network Marketing. What makes the Network Marketing approach interesting are factors like freedom to work at your own time and pace and additional residual income, besides the opportunity to be your own boss and this drives several people to venture into home-based businesses that promise steady and gradual success for ordinary people. Interestingly, our survey revealed that women seem to make better network marketers than men.

CONCLUSION

A MLM member who progressively advanced through the network will get opportunities to attend weekly meetings, share his success stories with other members, get rewards for performance etc. This will also provide opportunities to improve their presentation skills, communication skills, motivation levels and interpersonal skills. Many people realize their true potential and selling skills after joining a good MLM network. That way, it helps them to develop personally also. So the MLM members look at the business as income, fun and self development, besides satisfaction from showing the way or providing



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opportunities to fellow countrymen.

Networks with membership numbers in a few lakhs are providing an employment opportunity for unemployed youth and other sections of society. By mobilizing large amount of funds through Insurance sales, they indirectly help the economic progress of the country also. The early negativism in the society about Multinational MLM companies like Amway is gone now and they can play an increasing role by creating jobs and mobilizing long term funds. Irrespective of the business plan and earning pattern and other advantages, MLM concept is likely to be stretched to more and more products or concepts. With the recent changing in laws relating to contract employment, part- time employment etc, many enterprising youth may embrace it as a source of second income.

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