

The world of Direct Sales, Network Marketing & Home Party Selling – A Practical Approach from India

Dr.Archana Dadhe

Ph.D,MBA,PGDIMM,PGDIM,DIM

Assistant Professor

Department of Management Sciences & Research,

G.S.College of Commerce & Economics, Nagpur

ABSTRACT

Network marketing is a type of business opportunity that is very popular with people looking for part-time, flexible businesses. Some of the best-known companies in America, including Avon, Amway, Mary Kay Cosmetics and Tupperware, fall under the network marketing umbrella.

Network marketing programs feature a low upfront investment--usually only a few hundred dollars for the purchase of a product sample kit--and the opportunity to sell a product line directly to friend, family and other personal contacts. Most network marketing programs also ask participants to recruit other sales representatives. The recruits constitute a representatives "downline," and their sales generate income for those above them in the program.

Key Words : Network Marketing,IBO,Downline, Home Party Selling.

NETWORK MARKETING

Introduction

Multi-level market (MLM) or **network marketing** is an American institution. Companies like Amway, Tupperware, Herbalife, Avon, Mary Kay and The Pampered Chef support huge networks of distributors and recruits who sell every type of product from dietary supplements to kitchenware to beauty products. Salespeople are called **independent business owners (IBO)** and generally work from their homes. On the surface, it's hard to tell the difference between a legitimate MLM and

a pyramid scheme. That's because they're both built on the business model of "multiple levels" of distributors and recruits.

Direct selling method in which independent-agents serve as distributors of goods and services,

And are encouraged to build and manage their own sales force by recruiting and training other independent agents. In this method, commission is earned on the agent's own sales revenue, as well as on the sales revenue of the sales-force recruited by the agent and his or her recruits (called down line) also called multilevel marketing (MLM), cellular marketing. Things can get sticky when a network marketing network compensates participants primarily for recruiting others rather than for selling the company's products or services. A network marketing system in which most of the revenue comes from recruitment may be considered an illegal pyramid scheme.

A pyramid scheme is an unsustainable business model that involves promising participants payment or services, primarily for enrolling other people into the scheme, rather than supplying any real investment or sale of products or services to the public. Various forms of pyramid schemes are illegal in many countries

Since network marketing programs are usually exempt from business opportunity regulation and aren't defined as franchises under state and federal franchise laws, you'll need to do your own investigation before investing any money.

The multi-level marketing (MLM) field grows and its member companies multiply. Solicitations to join the movement seem to be everywhere. The impression accordingly grows that it is indeed the "wave of the future", a business model that is gaining momentum, growing in acceptance and legitimacy and, as its promoters claim, will eventually replace most other forms of marketing and sales. Many are led to believe the assertions that success can be found by anyone who faithfully believes in the system and steadfastly adheres to its methods and that, eventually, all of us will become MLM distributors.

PRODUCTS OF THE TOP 10

1. **Amway** – Cosmetics, Personal Care, Food & Beverage, Home Care, Wellness
2. **Avon** – Beauty, Fashion Jewelry, Apparel, Home Care
3. **Herbalife** – Cosmetics, Personal Care, Wellness
4. **Vorwerk** – Cosmetics, Home Appliances, Home Care
5. **Natura** – Cosmetics, Personal Care
6. **Mary Kay** – Cosmetics, Personal Care
7. **Tupperware** – Storage & Serving, Beauty, Personal Care
8. **Nu Skin** – Cosmetics, Personal Care, Wellness
9. **Oriflame** – Cosmetics, Personal Care
10. **Belcorp** – Cosmetics, Personal Care

Tupperware

Earl S. Tupper founded the Tupperware company in 1938. It started by using mold parts for navy signal lamps and gas masks. Its products were durable and easy to handle. They designed the

renowned air tight, liquid proof lid in 1946. Brownie Wise a sales woman was selling household products for Stanly Home Products was hired by Tupperware company. She introduced unique party plan method of marketing. Women were the prime sellers & consumers for the company. She removed all Tupperware products from retail outlets and marketed them through the party plan method. When its profit increased it expanded its business into various lines such as beauty control, jewellery and apparels.

Tupperware in India

Tupperware started its operations in India in 1996 from Delhi. Appointed 15 distributors in the first 12 months. Direct selling & party plan both was implemented. Distributor made profit on sales of the entire distribution team. Dealers earn 25% commission on sales. Manager made profit on sales, training. Performance based compensation was given.

Its marketing strategy is the 3 P's

1. Product – Products has a lifetime guarantee. Any damage to the product could be replaced at any point of time anywhere in the world.
2. Party Plan – In this the women dealer approaches a lady and asks her to host a party at her place, the investment in party was borne by the hostess.
3. People – Build the people and they will build the business.

The network structure had three levels. First the lowest level was the Dealer then was the Manager and finally at the top level was the Distributor. In India 100% women employees.

Avon

Avon offers its customers not only a wide assortment of cosmetic products but also jewellery, home decoration items, accessories and wellness products. It was founded in 1886 by a 28-year-old David H. McConnell who sold books door-to-door and gave out perfume to entice women to buy his books. It started with California Perfume Company (CPC) in New York. In October, 1939, the company was changed officially to Avon Products, Inc.

Bundle selling, also known as up selling and cross-selling is a practice of marketing, promoting and selling an additional related or unrelated product with the main product.

Amway

Amway is an American company using a multi-level marketing model to sell a variety of products, primarily in the health, beauty, and home care markets. Amway was founded in 1959 by Jay Van Andel and Richard DeVos. Members get 15-20% retail margins, 6-21% performance bonus on monthly basis, 4% leadership Bonus & 15% technical bonus.

SALES & MARKETING PLAN

The activities of each distributor are determined by the Sales and Marketing Plan. It practices direct selling which is 'A method of selling goods directly to the consumer by an independent Distributor. A Distributor can then introduce further Distributors and generate income from retail profits supplemented by bonus payments based upon the total sales of the group built by a Distributor'.

Income is generated by a distributor through:

- The retailing of goods to consumers. Retail margins (mark-ups) on the basic wholesale price represent income to the selling distributor.

- Additional performance and leadership bonuses, paid on the volume of personal business of the distributor and the business volume of the distributors he has introduced to the business.
- Various levels of leadership bonuses, dependent upon the overall size and shape of the business, paid on achieving different levels of business performance.
This plan, therefore, rests upon the twin foundations of retailing and sponsoring.
- Retailing - the selling of goods to consumers on which retail margins are earned and performance bonuses gained.
- Sponsoring - the introduction of other individuals to establish and develop their own independent distributorships.

Retailing enables distributors to provide immediate financial incentive rewards. Sponsoring enables distributors to replicate the base with other people, thus allowing the organization to grow.

Direct selling involves sales people showing and demonstrating products to obtain orders. The objective involves matching consumer needs with the product. The better the match, the more lasting the potential for the relationship between the seller and the buyer. The selling process is aided by retail strategy to provide high quality, readily purchasable items with a good environmental positioning, offering as with all direct selling activities, the process involves two-way communication and this can be time-consuming. Business success and the resulting financial results are a direct consequence of effort, commitment and personal group motivation.

Personal contact between distributors at one-to-one or group meetings provides the opportunity for individuals to discuss strategies, difficulties, levels of involvement and plans for the future. The income objectives and individual targets may be determined by each distributor based upon what he or she wants to earn.

Distributors who develop direct selling businesses may come from widely different backgrounds, with vastly different levels of experience and knowledge - the common factor to their success is the desire to achieve.

OBJECTIVES OF THE STUDY

The specific objectives of the study are

1. To study the role of Independent Business Owners in Network marketing & Home Party Selling.
2. To examine the effect 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 campaign.

HYPOTHESIS

1. H₀: There will be no effect on exploitation of relationships in Network marketing & Home Party Selling between friends and relatives. The channel members of network marketing companies are not having a positive attitude towards the campaign.

2. H₁: There will be effect on exploitation of relationships in Network marketing & Home Party Selling between friends and relatives. The channel members of network marketing companies are having a positive attitude towards the campaign.

SAMPLE SIZE

Sample size was 500 respondents from Metros & Non metros of India. Random sampling method was used for the research. Businessman, Housewives, Working women & Beauty parlours were the target market.

THEORETICAL PERSPECTIVE

Network Marketing is a new phenomenon that has gained ground in the last three decades and hence there isn't much of research, study and literature that is available as in the other traditional theories and practice of Marketing. The WFDSA - World Federation of Direct Selling Agents have defined Network selling as "Marketing and Selling of Products and Services directly to the Consumers in a face to face and in places like home, workplace and other offices other than retail sales locations."

Network marketing and multi-level marketing have been described by author Dominique Xardel as being synonymous, and as methods of direct selling. According to Xardel, direct selling and network marketing refer to the distribution system, while the term "multi-level marketing" describes the compensation plan.

From author Richard Poe: Network marketing is not defined in any standard dictionary of business terms. Nor do network marketers themselves agree on what it means. For lack of any clear standard, he suggested that "any method of marketing that allows independent sales representatives to recruit other sales representatives and to draw commissions from the sales of those recruits."

A study conducted with Zig Ziglar (with Dr. John Hayes) explained that network marketing is a system for distributing goods and services through networks of thousands of independent salespeople, or distributors. The distributors earn money by selling goods and services and also by recruiting and sponsoring other salespeople who become part of their downline, or sales organization. Distributors earn monthly commissions or bonuses on the sales revenues generated by their downline.

Another prominent MLM author, Dr. Charles King, professor of marketing at the University of Illinois at Chicago (with James Robinson) conducted study on Network marketing & said that it's the low-cost, and now high-tech, industry that invites you to build your own business and earn a potentially high income while working from home on your own schedule. You earn immediate income and serious long-term residual income by selling products and services directly to consumers and convincing others to do the same.

The network perspective (eg, Hammarkvist, Håkansson and Mattsson 1982) was developed in the area of marketing as an alternative to the dominant marketing management perspective (eg, Kotler 1997). The adherents of the network perspective found that in their empirical studies, the firms did not act in accordance with the marketing management perspective. Especially not firms which delivered to other firms (business-to-business marketing). They did not regard customers and suppliers as competitors, but more as collaborators.

Allan Pease said that "The network marketing business has evolved virtually overnight without fanfare or advertising and could eventually become the largest business system of them all. Its success relies on the referral - based distribution system and is driven almost entirely by the

enthusiasm of its members. It is one of the most dynamic opportunities ever created by the mind of man.”

Table 1: Company's Revenue & Ranking position

2014 Rank	2015 Rank	Company Name	2013 Revenue	2014 Revenue
1	1	Amway	\$11.80B	\$10.80B
2	2	Avon	\$9.95B	\$8.90B
3	3	Herbalife	\$4.80B	\$5.00B
4	5	Vorwerk	\$3.70B	\$3.90B
5	4	Mary Kay	\$3.60B	\$4.00B
6	6	Natura	\$3.20B	\$3.20B
7	9	Nu Skin	\$3.18B	\$2.57B
8	8	Tupperware	\$2.67B	\$2.60B

See the ranking of top 10 companies & their revenues in 2013 & 2014 which shows that Amway, Avon & Herbalife are the leaders.

Amway is now the largest direct selling company of the world. Amway's sales were slowing down as compared to 2013. But this was sufficient for Amway to move up to the leader position followed by Avon.

DATA ANALYSIS & INTERPRETATION

Survey was conducted in Metros & Non metros of India.

1. Which network marketing company do you belong to?

Table 2: Dealers Distribution

S.No.	Company	Percentage	No. of Respondents
	Avon	27%	135
	Amway	41%	205
	Tupperware	14%	70
	Herbalife	4%	20
	Oriflame	14%	70
Total		100%	500

If for any reason you are not completely satisfied with products, you may return them within 180 days of purchase for an exchange or refund of the product price and applicable tax. So most of the respondents i.e. 41 % were dealing in Amway & 27 % Avon & rest of them were in Tupperware & Oriflame.

2. Do you think there is an exploitation of relationship between relatives & friends in Network Marketing?

Table 3 : Exploitation of relationship between relatives & friends

Companies	Agree	Somewhat agree	Neutral	Somewhat Disagree	Disagree	Total
Avon	87(86.94)	30(32.6)	10(9.4)	5(3.5)	3(2.4)	135
Amway	140(132.02)	50(49.6)	8(14.3)	3(5.3)	4(3.6)	205
Tupperware	40(46.3)	15(17.4)	12(5.0)	4(1.8)	1(1.2)	72
Herbalife	12(12.8)	6(4.8)	2(1.4)	0	0	20
Oriflame	43(43.7)	20(16.4)	3(4.7)	1(1.7)	1(1.2)	68
Total	322	121	35	13	9	500

The calculated value of Chi Square = 20.9

The table value of Chi Square at 5 % level of significance for 16 degrees of freedom is 26.29. The calculated value is less than the table value so null hypothesis is accepted. The study found that there is no exploitation of relationships in network marketing. People do not 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 and friends and colleagues to join as channel members.

3. Do you have positive attitude towards the campaign of network marketing or Home party selling.

Table 4 : Positive attitude towards the campaign of Network Marketing

Companies	Agree	Somewhat agree	Neutral	Somewhat Disagree	Disagree	Total
Avon	60(72.9)	50(44.2)	22(15.6)	2(1.0)	1(1.0)	135
Amway	125(110.7)	68(67.2)	10(23.7)	1(1.6)	1(1.6)	205
Tupperware	35(38.8)	18(23.6)	19(8.3)	0	0	72
Herbalife	10(10.8)	8(6.5)	2(2.3)	0	0	20
Oriflame	40(36.7)	20(22.3)	5(7.8)	1(0.5)	2(0.5)	68
Total	270	164	58	4	4	500

The calculated value of Chi Square is 26.7

The table value of Chi Square at 5 % level of significance for 16 degrees of freedom is 26.29. The calculated value is more than the table value so null hypothesis is rejected. Majority respondents have positive attitude towards the campaign of Network Marketing as the profit earned by the respondents are more and the time spent for this activity is less.

4. In home party whether relatives & friends are being invited?

Table 5 : Invitation to Relatives & Friends in Home Party

Companies	Yes	No	Total
Avon	128(123.3)	7(11.6)	135
Amway	200(187.3)	5(17.6)	205
Tupperware	55(65.8)	17(6.1)	72
Herbalife	12(18.2)	8(1.7)	20
Oriflame	62(62.1)	6(5.8)	68
Total	457	43	500

The calculated value of Chi Square is 58.47

The table value of Chi Square at 5% level of significance for 4 degrees of freedom is 9.488. The calculated value greater than the table value which shows that Relatives & Friends are being invited in home party.

5. What exactly do you do to market your products or company through networking?

Table 6: Venue & tools used for Marketing Products & Company

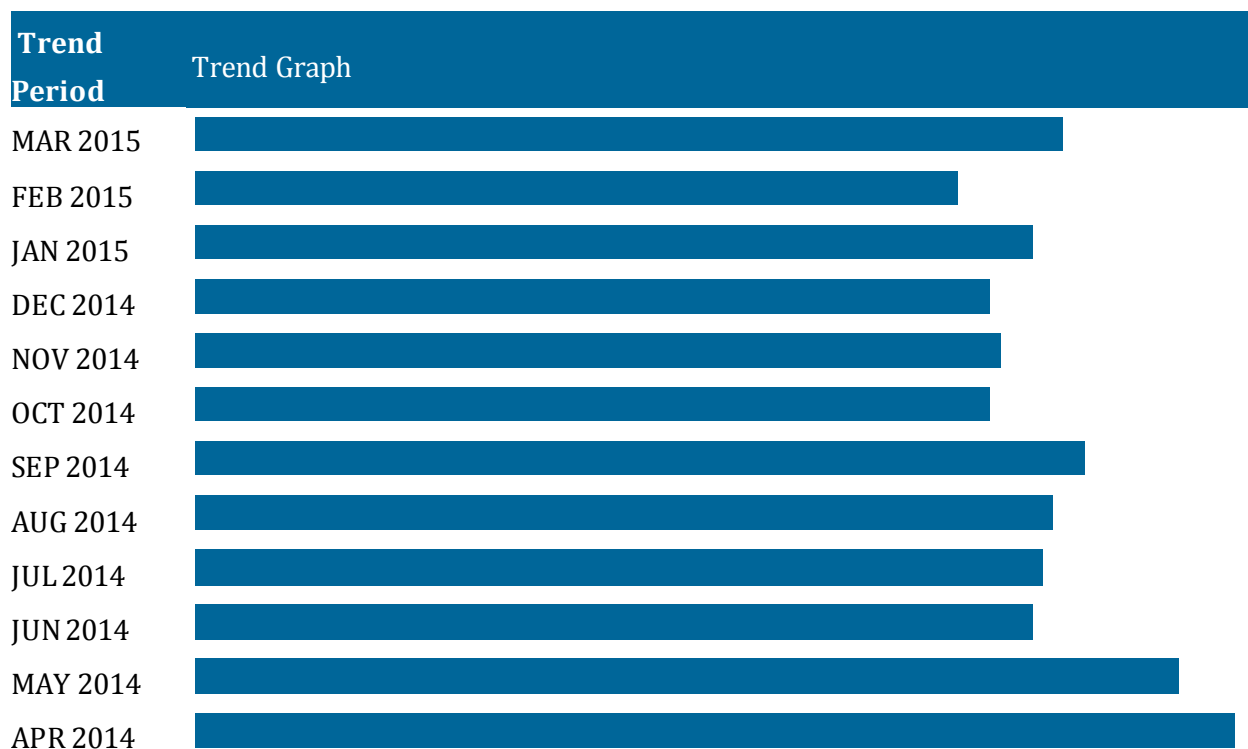
Companies	Home Party	Telephonic Calls	Common Gathering Place	Total
Avon	105(93.9)	10(15.9)	20(25.1)	135
Amway	155(142.6)	20(24.1)	30(38.1)	205
Tupperware	38(50.1)	4(8.4)	30(13.3)	72
Herbalife	10(13.9)	5(2.3)	5(3.7)	20
Oriflame	40(47.3)	20(8.0)	8(12.6)	68
Total	348	59	93	500

The calculated value of Chi Square is 59.4

The table value of Chi Square at 5% level of significance for 8 degrees of freedom is 15.507. The calculated value is more as compared to the table value. Home party is the best method to sell your products & convert people in to business partners.

Amway Business Popularity Trend

Graph 1 : Business Popularity Trend



Data provided by Quivex Media. The first and most trusted home business ranking resource.

6. What is the conversion rate?

Table 7 : Conversion rate

Companies	10%	Below 10%	Total
Avon	98(70.4)	37(64.5)	135
Amway	99(107.0)	106(97.9)	205
Tupperware	34(37.5)	38(34.4)	72
Herbalife	10(10.4)	10(9.5)	20
Oriflame	20(35.4)	48(32.5)	68
Total	261	239	500

The calculated value of Chi Square is 38.4.4

The table value of Chi Square at 5% level of significance for 4 degrees of freedom is 9.488. The calculated value is more as compared to table value so in most of the cases conversion rate when IBO call people to attend party is 10%. Leading companies like Amway & Avon has very good conversion rate.

7. Only for the sake of relationship do they get converted in to members?

Table 8 : Conversion of relationship in to members

Companies	Yes	No	Total
Avon	90(86.1)	45(48.8)	135
Amway	120(130.7)	85(74.2)	205
Tupperware	50(45.9)	22(26.0)	72
Herbalife	11(12.7)	9(7.2)	20
Oriflame	48(43.3)	20(24.6)	68
Total	319	181	500

The calculated value of Chi Square is 5.9

The table value of Chi Square at 5% level of significance for 4 degrees of freedom is 9.488. The calculated value is less than the table value it shows that people find business opportunity in the proposal so they get converted in to members & not for the sake of relationship.

8. How much profit margin every channel members get?

Table 9 : Profit Margin

Companies	20%	50%	Total
Avon	120(113.4)	15(21.6)	135
Amway	180(213.2)	25(32.8)	205
Tupperware	60(60.4)	12(11.5)	72
Herbalife	15(16.8)	5(3.2)	20
Oriflame	45(57.1)	23(10.8)	68
Total	420	80	500

The calculated value of Chi Square is 25.4

The table value of Chi Square at 5% level of significance for 4 degrees of freedom is 9.488. The calculated value is greater than the table value it signifies that Business partners get very good profit margin on their sale.

9. Do you think this marketing method is more profitable than advertising or other promotional methods.?

Table 10 : Network Marketing is more profitable as compared to other Advertisements

Companies	Yes	No	Total
Avon	120(120.6)	15(14.3)	135
Amway	191(183.2)	14(21.7)	205
Tupperware	65(64.3)	7(7.6)	72
Herbalife	16(17.8)	4(2.1)	20
Oriflame	55(60.7)	13(7.2)	68
Total	447	53	500

The calculated value of Chi Square is 10.129

The table value of Chi Square at 5% level of significance for 4 degrees of freedom is 9.488 which shows that Network Marketing method is more profitable as compared to advertisements or other promotional methods. 90 % Business partners opined the same.

Table 11 : Calculated & Table value of Chi Square

S.No.	Parameters	Degree of Freedom	Level of Significance	Calculated value of Chi Square	Table value of Chi Square
1.	Exploitation of Relationship between Relatives & Friends	16	5 %	20.9	26.9
2.	Positive attitude towards Network Marketing	16	5 %	26.7	26.9
3.	Invitation to relative & Friends in Home Party	4	5 %	58.47	9.488
4.	Venue & tools used for Marketing Products & Company	8	5 %	59.4	15.507
5.	Conversion Rate	4	5 %	38.44	9.488
6.	Conversion of relationship in to members	4	5 %	5.9	9.488
7.	Profit Margin	4	5 %	25.4	9.488
8.	Network Marketing is more profitable as compared to other Advertisements	4	5 %	10.129	9.488

CONCLUSION

The study found that there is no exploitation of relationships in network marketing. People do not join the network marketing mainly because of persuasion by friends and relatives. Network members who were in the business contacted relatives, friends and colleagues to join as channel members. People would like to join the group when the venture is profitable, they do not want to join for the sake of relationship they have. Home party is the best method to sell your products & convert people in to business partners. The conversion rate when IBO call people to attend party is 10%. Business partners get very good profit margin on their sale. Network Marketing method is more profitable as compared to advertisements or other promotional methods.

The primary motive of Network members who are in the business was the additional income generation, whereas it has become a career for many who are in this business. In summary, the conclusions drawn from the study are: The network marketing does not exploit the relationships viz friends and relatives. (A null hypothesis is supported). The channel members are having a positive attitude towards the venture. (Null hypotheses is not supported).

Good products don't necessarily mean good business. They may have its benefits with good margins, regular training sessions that motivate representatives to seek business and interesting bonuses, parties and team outings where you could have a lot of fun. But there's one major flaw in the traditional MLM setup. In the traditional system, representatives are taught to contact people they know, offer products demos and promote the product as well as the business opportunity. While this could work up to a level, the majority of representatives following this routine face only rejects and get frustrated.

Quite often, you put the friends in the uncomfortable position of feeling obligated to buy an item that they don't want in order to please you. You're directly exchanging the value of your friendship for the small commission you get for your sale.

A close friend won't mind too much. They're likely to understand completely what you're doing and will support you no matter what you choose.

Successful entrepreneurship is never easy and it doesn't need to rely on the giving nature of your friends to succeed. It's a much harder road, but it's a sustainable road, one that your friends and family will be happy to see you succeed on.

REFERENCES

Abraham Samuel, "A million dreams" The Week, Volume 24, No 50. November 12, 2006, 24 – 36.

Bloch, B. (1996), "Multilevel marketing: What's the catch?" Journal of Consumer Marketing, 13(4), 18-26.

Cheung, J.P.L. (1993), Multi-level Marketing in Hong Kong: A Unique Direct Marketing Strategy, MBA thesis, The University of Hong Kong, Hong Kong.

Direct Selling (2000), A discussion paper presented by the World Federation of Direct Selling Associations, <http://www.wfdsa.org/pwhatis.stm>

Kustin, R.A. & Jones, R.A. (1995), "Research note: A study of perceptions in Australia," International Marketing Review, 12(6), 60-67.

Multilevel Marketing (2000), A discussion paper presented by the World Federation of Direct Selling Associations, <http://www.wfdsa.org/pmlm.stm>

Peterson, R.A. & Wotruba, T.R. (1996), "What is direct selling? Definition, perspectives, and research agenda," The Journal of Personal Selling & Sales Management, 16(4), 1-8.

Poon, Antony K.Y.(2003), "Network Marketing – Recruitment and Training and the Industrial Ban In China: A Review of Literature." DBA research paper 1, The University on South Australia.

Raymond, M.A. & Tanner, J.F., Jr. (1994), "Maintaining customer relationships in direct sales: Stimulating repeat purchase behavior," Journal of Personal Selling & Sales Management, 14(3).

Babener, J.A. (2013), "Herbalife: What the Short Sellers Missed on the Way to the Press Conference," Direct Selling News, 1 September,

Barkacs, C.B. (1997), "Multilevel Marketing and Antifraud Statutes: Legal Enterprises or Pyramid Schemes," Marketing and the Law, Cava, A., Sacasas, R. and DiMatteo, L.A., editors, Journal of the Academy of Marketing Science, Vol. 25 No. 2, pp. 176-179.

Benway, K., Himelfarb, A., Greisman, L.C., and Vladeck, D. (2010), Disclosure Requirements and Prohibitions Concerning Business Opportunities Staff Report to the Federal Trade Commission and Proposed Revised Trade Regulation Rule, 16 CFR Part 437, 8 November.

Bloch, B. (1996), "Multilevel marketing: What's the catch?" The Journal of Consumer Marketing, Vol. 13 No. 4, pp. 18-26.

Chonko, L.B., Wotruba, T.R. and Loe, T.W. (2002), "Direct Selling Ethics at the Top: An Industry Audit and Status Report," Journal of Personal Selling & Sales Management, Vol. 22 No. 2, pp. 87-95.

Coughlan, A.T. and Grayson, K. (1998), "Network marketing organizations: Compensation plans, retail network growth, and profitability," *International Journal of Research in Marketing*, Vol. 15 December, pp. 401-426.

Koehn, D. (2001), "Ethical issues connected with multi-level marketing schemes," *Journal of Business Ethics*, Vol. 29 No. 1/2, pp. 153-160.

Kustin, R.A. and Jones R.A. (1995), "Research note: A study of direct selling perceptions in Australia," *International Marketing Review*, Vol. 12 No. 6, pp. 60-64.

Peterson, R.A., and Watruba, T.R. (1996), "What is direct selling? – Definition, perspectives, and research agenda," *The Journal of Personal Selling & Sales Management*, Vol. 16 No. 4, pp. 1-16.

Securities and Exchange Commission (2013), *Investor Alert: Beware of Pyramid Schemes Posing as Multi-Level Marketing Programs*, 17 October.

Vander Nat, P.J. and Keep, W.W. (2002), "Marketing Fraud: An Approach for Differentiating Multilevel Marketing from Pyramid Schemes," *Journal of Public Policy and Marketing*, Vol. 21 Spring, pp. 139–151.

Greenberg, H. (2013b), "Why Spotting a Pyramid Scheme Isn't So Easy," *CNBC*, 9 January, 3:19 PM ET.

Herbalife (2013b), *Herbalife Ltd. Annual Report 2012*, 19 February.

Peiss, K. (1998), "'Vital Industry' and Women's Ventures: Conceptualizing Gender in Twentieth Century Business History," *Business History Review*, Vol. 72 No. 2, pp. 219 – 241.