



Network Marketing: An Examination Of Its Reality, Myths, Aspirations, And Mechanisms For Success

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Abstract: As the business environment becomes increasingly competitive, organizations are compelled to maximize their capabilities. Ultimately, the success of these companies hinges on their human resources and effective business and marketing strategies, which are essential for gaining visibility in global markets. Consequently, network marketing has emerged as a widely adopted method to enhance the performance of both small and large logistics companies. Multi-level marketing is a strategy that encourages participants to promote a specific product within their social circles. The growing popularity of this approach can be attributed to the accessibility of modern social networks; however, it has existed in various forms long before the advent of the Internet, with the notorious pyramid scheme being a notable example of multi-level marketing that has been around for at least a century. The India Direct Selling Association (IDSA) has estimated that the network marketing industry will reach approximately Rs 9000 crores by the end of 2013. This paper aims to provide a deeper understanding of how network marketing serves as a marketing strategy and tool for the development of logistics companies in the new millennium. The objective is to explore the roots of localized practices within the context of rapidly evolving globalization, thereby facilitating a pathway toward broader global integration.

Key-words: Network Marketing, Logistic, Globalization, Customers, Mechanism.

I. INTRODUCTION

Network marketing is a strategy that enables decisions to be informed by the collection and analysis of user profiles. For many years, businesses have utilized direct marketing to reach customers while minimizing expenses related to retail distribution. However, network marketers have advanced this direct approach by not only engaging in sales but also by recruiting and training new distributors, who are independent sales representatives within the network marketing organization. This innovative method gained prominence through Amway in the 1950s. The core principle of multi-level marketing is that an individual, such as Alice, who has already purchased a product, receives rewards for referring others, like Bob, who makes purchases as a result of Alice's promotion. The reward structure in multi-level marketing can vary, allowing Alice to earn rewards not only from Bob's purchases but also from Bob's referrals, creating a recursive incentive system.

The ability to gather small rewards from numerous individuals into a substantial total is significant, as it enables advertisers to engage early adopters and trendsetters, who hold considerable value. However, this potential for accumulating a large sum has also led to the emergence of more dubious forms of multi-level marketing, particularly pyramid schemes. A key attraction of network marketing lies in the commissions earned not only from the direct sales made by the salesperson but also from the sales generated by their recruits. In essence, when friends and family are recruited, the original salesperson earns commissions not only from their purchases but also from the sales those recruits make to their own networks. This enticing opportunity draws many individuals to consider joining network marketing firms. Research indicates that a 100 percent annual turnover rate among sales personnel in certain network marketing companies is not uncommon. The Direct Selling Association in the United States reports that 70% of the revenue from direct selling is derived from network marketing companies, with a significant portion coming from well-known firms such as Amway, Nuskin, and Shaklee, which utilize multi-level compensation plans rather than single-level ones.

During the mid-1990s, India experienced significant growth in network marketing, particularly following the establishment of the Indian branch of Amway Corporation. By 2005, the total revenue generated by network marketing companies in India was estimated to be Rs.30,104 crores, reflecting an annual growth rate of 25% (Tribute, 2006). Key players in the Indian network marketing sector include Amway India, Avon, Tupperware, Oriflame, as well as local companies such as Modicare and Hindustan Lever Network. The Indian Direct Selling Association (IDSA) plays a crucial role in supporting legitimate network marketing companies through membership facilitation. The IDSA projected that the network marketing industry would reach Rs.9000 crores by 2013.

The National Council of Applied Economic Research has projected that the Indian middle class will increase from 1.1 crore households in 2001-02 to 1.7 crore households by 2005-06, with an anticipated rise to 2.8 crore households by 2009-10. These statistics support the optimistic outlook for network marketing in India. Network marketing involves three key participants: the primary company that produces the goods, the net worker or retailer who markets these products, and the customer who purchases them. In this model, a network of independent retailers oversees the marketing and sales efforts of the organization. Sales representatives in network marketing conduct various face-to-face presentations and engage directly with consumers. They also have the responsibility of recruiting new retailers from their personal social networks. Consequently, the growth potential of network marketing is amplified as these distributors persist in their recruitment and sponsorship activities. This growth potential, a crucial aspect of the recruiting or sponsoring process, distinguishes network marketing from other forms of direct selling that rely on compensated sales personnel.

The sunflower and pyramid models represent two prevalent frameworks in network marketing. In the sunflower model, also known as the Unilevel model, each distributor has the capacity to create an unlimited number of nodes. Conversely, the pyramid model, or binary model, restricts each distributor to enrolling only two individuals, who subsequently replicate this process. Within the Unilevel model, a distributor earns a share of the total volume generated by their team, rather than receiving compensation solely for registrations. The initial purchase of a product is regarded as the first registration. In the binary model, income is primarily derived from registration fees, with a significant portion of earnings coming from those who drop out. The increasing internationalization and globalization of freight forwarding and logistics services have led to a widespread recognition of the importance of network marketing for the business advancement of numerous companies.

II. COLLECTING PERSONAL PROFILES

The sunflower and pyramid models are two widely recognized frameworks in the field of network marketing. The sunflower model, often referred to as the Unilevel model, allows each distributor to establish an unlimited number of nodes. In contrast, the pyramid model, also known as the binary model, limits each distributor to enrolling only two individuals, who then follow the same enrollment process. Under the Unilevel model, a distributor receives a portion of the total volume generated by their team, rather than being compensated solely for the number of registrations. The initial purchase of a product is considered the first registration. In the binary model, income is primarily generated from registration fees, with a considerable amount of earnings coming from individuals who discontinue their participation. The growing internationalization and globalization of freight forwarding and logistics services have resulted in a broader acknowledgment of the significance of network marketing for the business growth of many companies.

2.1 Profile Analysis

Profile analysis seeks to examine the relationships among various attributes to forecast the potential values of other unfilled attributes. This process focuses on identifying which attribute values are likely to influence the target attribute value. For instance, we aim to determine the individuals who are inclined to purchase product A. The analysis will initially establish "having purchased product A = yes" as the target attribute value and will endeavor to identify the associated attribute values for those who have already made the purchase. An attribute is deemed a related attribute for a target attribute value if a significant majority of individuals possessing the target attribute value also share the same value for the related attribute. In essence, the related attribute can be viewed as the cause, while the target attribute value represents the effect, indicating that the related attribute contributes to the occurrence of the target attribute value. If an individual possesses the related attribute value (the cause) but has not purchased product A (the effect), that individual will be considered a target for marketing efforts.

The concentration factor of an attribute can also be defined to assess its relationship with other attributes. For a specific set of members, we aim to investigate whether the values of each attribute are focused on a particular one. If this is the case, the shared characteristic may influence the value of a target attribute. We operate under the assumption that all attributes are discrete, resulting in a finite number of possible values for each attribute. For instance, attribute Y can take on two values (y_1, y_2), while attribute Z can assume three values (z_1, z_2, z_3). In our current database, we have 100 records, with 75 records showing $Y=y_1$ and 25 records indicating $Y=y_2$. In parallel, there are 50 records for $Z=z_1$, 30 for $Z=z_2$, and 20 for $Z=z_3$. At first glance, it may seem that $Y=y_1$ is more concentrated than $Z=z_1$ due to the higher number of records. However, this comparison is misleading, as attribute Z has three possible values while attribute Y has only two. Consequently, normalization of the results is essential to facilitate meaningful comparisons.

III. CHARACTERISTICS OF NETWORK MARKETING ORGANIZATION

Network marketing is a rapidly growing and often debated method of direct selling. It involves the organization of direct selling activities by network marketing companies. The marketing structure of such companies comprises independent sales representatives who establish and sustain a network-oriented sales organization. These sales representatives, known as network marketing distributors, primarily develop their businesses through their social connections by recruiting, training, and inspiring new members within their network. Distributors play a crucial role in managing and controlling the customer and distributor portfolios of the network marketing company. They operate as independent contractors rather than employees of the principal company. The contracts that distributors enter into outline the permissible activities within the organization, along with the associated rights and responsibilities tied to specific actions. Typically,

distributors have the opportunity to purchase products at a discounted rate, sell them to end customers, earn sales bonuses, and recruit new members into their downline, receiving additional bonuses based on their sales performance. The relationships among distributors also exhibit unique characteristics, particularly the informal nature of the connection between a primary distributor and a new recruit, as there are no formal contracts involved.

A new distributor is placed at the first level of the down-line of a primary distributor who has recruited him. Consequently, the primary distributor assumes the role of his sponsor and is anticipated to familiarize him with the company's policies; the term mentor may be more descriptive in this context. In return, the principal company provides financial rewards to the sponsor based on the sales generated by the new member. While there are no legal obligations involved, these sponsorship relationships create financial connections among distributors within the network. It is important to note that no specific actions are mandated from the sponsor in the establishment of the down-line organization.

A certain level of personal selling is necessary to qualify for network bonuses; however, both passive and active sponsors are treated equally regarding their interactions with the down-line. Therefore, financial incentives are determined solely by sales performance rather than behavioral factors. Given that there are no obligations tied to membership in the organization and no legal authority governing distributor relationships, all actions taken by distributors—whether sales-related or otherwise—are inherently discretionary. As independent contractors of the NM company, distributors have the autonomy to choose their organizational roles and the manner in which they pursue their objectives upon joining the organization.

IV. FROM CHAINS TO NETWORKS

An examination of the evolution of logistics from the 1960s to the present reveals significant changes in optimization practices. During the 1960s and 1970s, businesses did not engage with logistics in the contemporary sense. Their focus was primarily on managing physical goods out of necessity, employing a technical approach to logistics operations such as transportation, warehousing, and handling, which led to localized optimizations. In the early 1980s, organizations began to seek improvements in the flow of goods to reduce logistics expenses. They adopted a three-step strategy that encompassed enhancing outbound (distribution), internal (production), and inbound (supply) flows. It became increasingly clear that the management aspect of these issues was as crucial as the technical side. Gradually, companies recognized the strategic significance of logistics, although their optimization efforts remained confined within the company's boundaries. As integrated logistics developed, both industrial and commercial enterprises started to outsource logistics operations to achieve better cost control and flexibility. They progressively transferred responsibilities for transportation, storage, warehousing, and order processing to logistics providers. It soon became evident that to enhance the overall logistics service delivered to the end customer while minimizing costs and maximizing flexibility, collaboration and coordination among companies were essential.



Fig 1. Supply Chain Map and Role of Logistics

V. THE REFERRALS TREE MODEL

There are numerous approaches to consider the social network that underpins the referral process. One might examine the timing of promotional messages exchanged between users, analyze referrals that did not result in a purchase of the promoted product, or even investigate the social connections where a referral was absent. However, the original seller may not have access to all this information. Consequently, we adopt a straightforward method by focusing solely on the structure of successful referrals. For each buyer, we designate a single referrer responsible for introducing the product (which is typically indicated at the time of purchase). The resulting structure of referrals creates a collection of directed trees, each rooted at a node representing a buyer who has directly purchased the product from the seller. This collection will be referred to as the referrals forest, denoted as T , with the individual rooted trees within T termed as referrals trees. We consider the assumption that T can be maintained by the seller to be sufficiently lenient. It is important to note that the referrals forest pertains to a singular multi-level marketing campaign, usually linked to a specific product. Additionally, social network users who did not make a purchase are excluded from T , even if some of their friends attempted to promote the product to them. For clarity, we assume that T is fully known at the time of reward distribution, although the mechanisms discussed are also applicable for incremental online payments. Furthermore, it is useful to associate buyers with their corresponding nodes in T , denoting the reward for the buyer linked to a node in the referrals forest T as $RT(u)$.

VI. CONSTRAINTS ON THE REWARD MECHANISM

The reward mechanism functions as a mapping from the referrals forest T to the non-negative real rewards associated with its nodes. However, not all such functions are appropriate; we establish three specific constraints on the reward mechanisms.

The first constraint is the subtree constraint: $RT(u)$ is determined solely by T_u , which refers to the subtree of T that is rooted at u . This is logical, as each user u can only be credited for the users they have directly promoted the product to, either through direct connections (the children of u in T) or through indirect connections (descendants of u at lower levels). Furthermore, if $RT(u)$ were to depend on u 's position within T rather than solely on T_u , it could lead to undesirable behavior from u . For instance, u might find it advantageous to postpone a product purchase after receiving a referral, hoping for a more favorable offer that would enhance their position within T . Consequently, the subtree constraint implies that it is unnecessary to consider the entire referrals forest T ; instead, the focus should be on the trees rooted at the nodes for which we are calculating rewards. In essence, the reward mechanism is entirely defined by the function $R(T)$, which maps the rooted tree T to the non-negative real reward of its root, which may be an internal node within the broader referrals forest.

The second limitation we establish for the reward mechanism is the budget constraint: the seller is prepared to allocate no more than a specific fraction $\alpha \leq 1$ of her total income to incentivize her buyers for referrals. Considering the product's price is \square , this implies that the aggregate amount of rewards distributed to all participants cannot exceed $\alpha \cdot (T)$. For simplicity, we assume that \square and α are adjusted so that $\alpha \cdot \square = 1$. Therefore, it follows that $\sum R(T_u) \leq [T]$, where u represents a subset of T .

The third constraint pertains to the unbounded reward condition, which indicates that there is no cap on the rewards that can be obtained, even when assuming that each user has a finite network of friends within the social structure (resulting in a restricted number of direct referrals). Formally, the unbounded reward condition stipulates the existence of a positive integer d (characteristic of the reward mechanism) such that for any real number R , there is a tree T with a maximum degree of d (meaning each node can have no more than d children) for which $R(T) \geq R$. This condition particularly suggests that the reward mechanisms we examine must consider indirect referrals as well.

VII. NETWORK MARKETING JOURNEY IN INDIA

The multi-level marketing (MLM) sector emerged as the most rapidly expanding segment of the global direct selling industry. In 1988, MLM generated total revenues of \$12 billion, which saw a remarkable increase to \$24 billion by 1998. In India, the direct marketing industry reached approximately Rs 6 billion in 1999, reflecting a significant growth rate of 62% compared to the previous year. During the pre-liberalization period, network marketing in India primarily took the form of various chit fund companies, such as Sahara India, which operated through a network of agents responsible for both mobilizing deposits and appointing sub-agents for further deposit collection. Companies like Eureka Forbes and Cease-Fire were instrumental in establishing the direct selling model in India, employing a trained sales force to conduct direct sales at consumers' homes. In 1995, Oriflame International became the first major international company to launch network marketing operations in India, followed by Avon India's entry in late 1996.

Tupperware, known for its range of plastic food storage and serving containers, made its entry into the Indian market in 1996. Subsequently, Avon's decision to withdraw from the multi-level marketing (MLM) framework posed a significant challenge to the industry. The first prominent domestic MLM company, Modicare, was established by the Modi family in 1996, with its network primarily extending across northern and western India. S.K. Gupta, the Chief Operating Officer, remarked on the Indian MLM landscape, stating, "The concept holds particular significance for India due to its highly fragmented retail environment, extensive brand proliferation that restricts shelf space, and intense competition among brands in both trade and advertising." By early 2001, the direct selling sector in India was still in its nascent phase. In addition to Amway, Oriflame, Avon, and Tupperware, other participants included Lotus Learning, LB Publishers, and DK Learning, all of which focused on book sales. All direct selling entities were affiliated with the Indian Direct Sellers' Association (IDSA) and adhered to its established code of conduct. While a diverse array of products was effectively marketed directly to consumers in international markets, this was not mirrored in India. In developed economies, consumers were generally well-informed about competing products, whereas awareness in developing nations like India remained relatively low. Industry analysts noted, "Given the rapid market growth, no direct selling company can solely rely on its own sales force to reach all customers." Nevertheless, MLM firms chose direct selling over the high-visibility retail strategies employed by competitive cosmetics brands such as Revlon, seeking to cultivate an image of exclusivity. In India, there was notable resistance to the concept of network marketing, as many individuals favored the stability associated with traditional employment. The role of a salesperson within a multi-level marketing (MLM) framework did not offer this sense of security, which hindered the company's efforts to recruit skilled professionals. This challenge was further compounded by the perception that companies regarded direct selling merely as an additional promotional strategy, rather than recognizing its core emphasis on motivation. However, a significant advantage of network selling was its convenience for women, as it allowed them to work part-time and choose their own hours.

The products offered are predominantly aimed at women, which facilitated the acceptance of distributorships among Indian women. A significant number of failures in Indian direct selling can be attributed to a lack of comprehensive understanding of the concept. Companies that chose to advertise through media channels quickly discovered that this approach had adverse effects. Such advertising fostered a sense of distrust among salespersons, leading them to believe that the company was processing direct orders, thereby diminishing their commissions.

In certain instances, the influence of demonstrations was diminished. Eureka Forbes approached this matter with caution by promoting not just its product, but also the salesperson as a trusted ally to the customer. Advertising was closely linked to retail, as it was essential for consumers to be informed about

where to purchase the product. Within a multi-level marketing (MLM) framework, investing in advertising was often deemed less effective. While this occasionally led to insufficient product visibility, the funds that would have been allocated for advertising were typically redirected towards training and incentivizing salespeople to reach out to as many customers as possible. Although Oriflame and Avon engaged in advertising, this was primarily due to their focus on cosmetics and personal care, which inherently involved an image component. In contrast, Amway, which had a significant presence in home care products, opted against extensive advertising campaigns like those of Oriflame and Avon. The competitive landscape in the industry was becoming more challenging in the early 21st century. Amway appeared to be performing better than rivals such as Modicare, a success largely attributed to its strong brand image. Both Amway and Modicare did not conform to the traditional door-to-door selling model, as they primarily sold to customers already acquainted with their distributors.

Modicare focused on the middle and upper-middle-class segments, in contrast to Amway, which primarily targeted affluent customers. Some of Modicare's offerings were priced at a quarter of Amway's prices. According to sources from Modicare, this pricing strategy was tailored for the Indian market, whereas Amway's prices were more aligned with its international standards. In certain instances, Modicare even opted to lower its profit margins. Furthermore, Modicare provided a 100% refund policy, even for used products, whereas Amway only offered a 75% refund. This difference in policies may pose a long-term challenge for Amway.

VIII. CONCLUSION

The company can only attain comprehensive global coverage for its clients through a network. Individuals typically engage in network marketing due to the influence of friends and family. Those who have been part of the network for two years or more tend to reach out to relatives more frequently than to friends and colleagues for recruitment as channel members. Conversely, individuals with over two years of experience are more likely to approach friends rather than relatives and colleagues. The network marketing strategy also emphasizes the provision of intricate global logistics services to connect the world market through a global network. Ultimately, the initiative seeks to integrate the company's capabilities into the network and streamline access to logistics services via a unified platform.

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