A STUDY ON INSIGHTS INTO NETWORK MARKETING

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Abstract

The purpose of this paper is to describe Network marketing and the benefits that it brings to the customers of Network marketing companies. The prime purpose of this is to explore attributes of Network Marketing business and influence distributors known as Independent Business Owners (IBOs). Secondly, to ascertain the facts about those three countries which will emerge as top performers by achieving maximum sales turnover as well as the highest sales productivity per salesperson (i.e. IBOs). The evaluation and choice becomes an area of concern to IBOs, while selecting a Network Marketing Companies (NMCs) depending upon one's choice. NMCs as well as IBOs are currently in a dilemma with no clarity in the absence of proper legislation in India, fly-by-night operators/outfits, and high attrition rate and so on. Hence, there is a pressing need to evaluate the performance of IBOs due to drastic changes in the buying behaviour driven by purchasing power parity, shift in lifestyles and demographic factors of consumers.

Keywords: *Network Marketing, Global Business Opportunities, International Business Perspective, Amway India, and Hindustan Unilever Network*

INTRODUCTION

Network Marketing in India is practised and participated by Organized and Unorganized sectors. The Organized sectors consist of members of 'Indian Direct Selling Association' (IDSA)1 apart from Non-IDSA member companies. The 18 member companies of IDSA are 4Life Trading India Pvt, Altos Enterprises Ltd., AMC Cookware (India) Pvt. Ltd., Amway India Enterprises, Avon Beauty Products India Pvt. Ltd., CNI Enterprise (India) Pvt. Ltd., Daehsan Trading (India) P. Ltd., Elken International India Pvt Forever Living Products (India) P. Ltd., Herbalife International India P. Ltd., Hindustan Unilever Network, Jafra Ruchi Cosmetics India Pvt Ltd, K-Link Healthcare (India) Pvt. Ltd., Mary Kay Cosmetics Pvt Ltd, Max New York Life Insurance Co. Ltd., Modicare Ltd., Oriflame India Pvt. Ltd., and Tupperware India Pvt. Ltd., and which is a coincidence that few companies (founder members) started their operations in 1996 with the formation of Indian Direct Selling Association.

REVIEW OF LITERATURE

John Mylonakis and Alketas Malioukis (2007)2 in their study stated that, the rapid growth of Multi-level Marketing (MLM), or network marketing industry, in the last decade has made itself an attention-gathering star in the retailing industry. Hoping to reap the merits and benefits of this unique marketing method, more and more companies who marketed their products and services through traditional market channels previously are now testing the possibility of employing the direct selling formula. Nevertheless, influenced by numerous factors, not every product or service has equal chance for realizing its market potential in the area of direct selling. The paradigm of this study raises the question of how a business, in which almost none of its sales representatives earn a profit and almost none has a sustainable retail distributor base, could be called direct selling company. Indeed, how such an enterprise could be considered a legitimate business at all.

Sreekumar P (2007)3 in his study, 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. 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 millions 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.

NEED FOR THE STUDY

A strong need is felt to examine the purpose, scope, objectives, current issues, based on the research gaps identified, and future directions of Network Marketing companies.

Objectives

1. Based on the background of study mentioned following are the research objectives.
2. To study, understand the concept of Network marketing in International markets.
3. To explore top 3 countries achievers in sales turnover in the world business and salespeople productivity.
4. To find out gender-wise involvement worldwide.
5. To study, examine the demographic factors with the level of distributor's satisfaction and Amway and Hindustan Unilever in particular.

Hypothesis

H01: Socio-economic and demographic factors of distributors of Amway India Enterprises and Hindustan Unilever Network have no significant impact on the 'Level of satisfaction'

SCOPE OF THE STUDY

The study focuses on three groups viz. 'IBOs', 'Network Marketing Companies' and 'Researchers of direct selling' in enhancing their effectiveness in the areas of assessment, training and behavioral research.

Network Marketing is in vogue over 150 countries worldwide and 65 countries are members of WFDSA. The global turnover was ₹ 5,291,896.5 Crores $117.6 USD4 during 2009-10, and $110 USD during 2008-09. As per the latest survey conducted by IDSA and Ernest & Young, the gross Indian turnover of IDSA member companies during 2008-2009 was ₹.33,330 Millions. The Organized sector accounted for ₹ 37,500 Million (US$ 835 million i.e.90.9%) and the Unorganized sector for ₹ 3,700 Million (US$ 80 million 8.9%) total ₹ 41,200 Million (US$ 915 million) for the fiscal year 2009-2010, displayed a robust 24% growth over compared to the previous year (2008-2009).

The total turnover of IDSA member companies was ₹.33,300 Millions with the annual growth rate of 17% during 2008–09 compared to the previous year. The share of organized sector was ₹.30,270 Million (US$ 670 million i.e.90.9%). The thirty five member companies of Non-IDSA contributed a turnover of ₹.11,830 Million. The rest of unorganized sector contributed ₹.3,030 Million (US$ 65 million) (9.1%).

Direct selling companies have also been active in contributing to the social and economic development of the country, with more than ₹ 409 Crores (US$90 million) paid as taxes. The direct and indirect taxes paid by the IDSA member companies was at ₹.3,700 Million in 2008-2009, accounting for 11.10% of the turnover, an increase of 18% over the last year tax payment of ₹.3,135.6 Million during 2007-2008. The projected turnover of Network Marketing companies in India is estimated at ₹.71, 000 Million (US$ 1,580 million) by 2012-13.

Table 1.Global Scenario- network marketing

Continent-wise	Estimated Sales (USD Millions)	Percentage	No of Sellers	Percentage	Salesforce (% Women)	No of countries
Asia / Pacific	49,628.4	42.2%	37,194,695	50.27%	67	13
Europe / Africa	20,217.4	17.2%	12,363,486	16.7%	82	35
Latin American	18,197.0	15.5%	7,710,805	10.42%	86	15
North America	29,554.8	25.13%	16,744,455	22.62%	83	02

Grand Total	117,597.7	100.0%	74,013,441	100.0%	76	65

As per the above table we can see that India was ranked 8th position in the Asian / Pacific continent. Benefits of Network marketing to Govt, Distributors and Network Marketing Companies

Benefits to Govt:
In 2006-07 by the IDSA member companies contributed a sum of ₹ 290 Crores, thus resulting to the overall development of India economy. The IDSA companies paid ₹. 313.5 Crores of taxes to the Indian government for the year ended 2007-08.

Benefits to Distributors:
The important reasons distributors choose Network marketing are
To get into contacts and socialize.
To Work from home with flexible time schedules.
To earn additional source of income.
To be own boss.

Earnings are proportion to the distributor's efforts. Benefits to Network marketing companies, The following reasons can be attributed to Network marketing companies, To get sales and wide reach by distributors with minimum employees. Anyone can do the Network business, There are no required levels of education, experience, financial resources or physical condition. People of all ages above 18 years and from all backgrounds have succeeded in Network marketing. The distributors can, Work 'part-time' or 'full-time' one chooses when and how much one wants to work. Set own goals and determine one how to reach them. The level of success one can achieve is limited only by willingness to work hard. Own a business of one's own with very low investment. Receive training and support from distributor's company.

Research Methodology
This is exploratory cum cross sectional descriptive design. For the purpose of data collection a structured questionnaire was designed to distribute 1032 Network marketers belongs to Amway India Enterprises and Hindustan Unilever Network from Hyderabad and Secunderabad cities. Six hundred valid responses received out of 1032 distributed questionnaires, (which accounts for 60% response rate) were considered for data Analysis, by using SPSS/PASW 18.0 version with appropriate statistical tools like descriptive statistics and inferential statistics.

Population: The population of this study were distributors commission earners from single digit per centers, and double digit per centers, up to silver producers of Amway India Enterprises and comparable achievers of Hindustan Unilever Network. The total active distributors in twin cities of Hyderabad and Secunderabad are appx. 3000 (Amway 1750+Hindustan1250)

Sample Size: The study was conducted on two shortlisted IDSA affiliated companies namely Amway India Enterprises and Hindustan Unilever Network, who offers business opportunities in Hyderabad and Secunderabad. The sample size is 600 (Hindustan Unilever Network 300 and Amway India Enterprises 300).

Sampling Unit:
The active distributors of Amway India Enterprises and Hindustan Unilever Network belongs to Greater Hyderabad and Secunderabad.

SAMPLING FRAME
As Amway India Enterprises and Hindustan Unilever Network are privately held companies, they kept distributors information confidential hence the list / details not shared with the researcher, but they have allowed interacting with active distributor at product distribution point and business building seminar / meetings at different location.

SAMPLING TECHNIQUE
The researcher had adopted Snow balling sampling technique by taking reference from different of distributors

DATA COLLECTION PROCEDURE
The primary data was collected through the field survey using structured questionnaires. The data has been gathered by contacting distributors, to elicit their views and opinions about Network marketing. Mostly personal interviews and in depth discussions were held but in some cases even telephonic discussions have been conducted like (a) The distributors / Consultants of Amway and Hindustan from lower PIN recognition level to top level were personally met (Diamonds of Amway and President-consultants of Hindustan were interviewed; (b) Many staff members of Amway Hyderabad, Chennai and New Delhi were interacted; (c) The employees of IDSA New Delhi like Manager Miss Koyal Geeth Husra to discuss issues related to Direct Selling / Network Marketing

Data was collected from 300 Hindustan Unilever Network consultants and 300 Indian Amway distributors randomly selected from point of sale (product delivery point) and at different venues of Business seminars and C&F agencies and business building seminars located at Khairthabad, Begumpet, Barkatpur, and other places in Hyderabad and Secunderabad, Chennai, Bangalore, New Delhi, Gurgoan and Mumbai etc. Also administered questionnaires at home meeting in the IBOs of Amway and Hindustan Unilever Network consultants

ANALYSIS OF THE RESULTS

The fifteen member companies of Indian Direct Selling Association (IDSA) contributed sales turnovers of ₹.18,840 Millions accounting for 62.24% to the overall Organized Direct Selling sector and 56.53% to total turnover during 2008-09. 'Non-IDSA' member companies contributed sales turnovers of ₹.11,430 Millions (37.76%) to the organized sector and 34.29% to total turnover, The revenues of an organized Direct Selling sector over eight preceding years, V(t) in the formula is presented in Table 2.

Table 2: Turnover and Compounded Annual Growth Rate (CAGR) of Organized IDSA Member Companies

Year	2000-1	2001-02	2002-03	2003-4	2004-05	2005-6	2006-7	2007-8	2008-09	2009-10
Revenues Million ₹	14,010	17,237	23,110	13,320	16,638.2	23,150	25,220	28,510	33,300	41,200
Simple Growth Rate (%)		23.03	34.07	-42.36	24.91	39.14	8.94	13.05	16.8	24.0

Global Scenario: The following twenty countries top ranked direct selling countries by sales turnover with more than $ 1 billion. The above direct sales figures represent "Billion Dollar Plus" countries during 2001-2010. From the table below, it may be inferred that USA topped as first ranker with $28.3 Bn, Japan ranked second topper with $22.4 Bn, and China ranked in the third position with $10.99 Bn.

Table 3: Countrywide Network Marketing Performance

Rank by Turnover (Rank)	Country	Retail Sales (In Millions)	No of Salespeople	Turnover per salesperson	Ranking by Productivity of Salesperson
I	USA (4)	28,330.0	16,100,000	1759.6	XI
II	Japan (3)	22,464.5	2,700,000	8,320.18	III
V	Korea (2)	7843.2	3,987,933	1,966.73	IX
VII	Germany (4)	3761.9	4,600,000	8,178.0	IV
IV	Brazil (2)	8040.0	2,377,336	3,338.1	VI
VI	Mexico (4)	4824.6	2,000,000	2,412.13	VIII
VIII	Italy (2)	3361.2	390,955	8,596.8	II
XIII	UK	1397.2	278,000	5,025.8	V
IX	Russia	3062.0	4,995,508	612.9	XIII
XVIII	Malaysia (2)	1134.8	4,000,000	283.7	XVI
X	France	2413.0	265,000	9,105.6	I
XI	Taiwan (2)	1701.1	4,442,000	382.9	XV
XII	Thailand (2)	1559.2	10,000,000	155.92	XIX
XV	Australia	1,248.0	500,000	2,496.0	VII
XVI	Canada	1224.8	644,455	1,900.5	X
XIV	Colombia (3)	1266.2	900,000	1,406.8	XII
III	China (1)	10,990.0	na	na	
XVII	Argentina	1149.7	731,132	157.	XVIII

	(2)				
XIX	Venezuela (5)	1122.9	565,000	198.2	XVII
XX	India (2)	1062.7	2,012,940	528.0	XIV
	Source: *WFDSA (2006 Data in US $ Millions) Link of WFDSA (1) The estimated size of China Direct Selling Industry was arrived at by using the revenue (Net sales) figure of US Dollars 8.79 Bn given in Direct Selling Industry rises against Economic downturn by Song Jingli, China Daily 11.30.2009, then uplifted by 25% to estimate Retail Sales figure (2) Retail sales and No of Sellers include both DSA and Non-DSA companies (3) The figures include DSA & Non-member companies (4) Sales figures exclude Value Added Tax (5) Figures are from WFDSA website (2008) and German DSA & the Arbeitsgemeinschaft Home services. (Enclosed in Annexure) Indian direct selling performance (2006)				

Source: WFDSA5

Table 4: Global Direct sales during 1998-2008 in billions of U.S.Dollars

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues Billion $	81.9	85.4	82.3	78.7	85.8	89.0	99.4	102.6	109.2	114.0	114	117
Global sales force size in millions of people	33.6	35.9	38.7	43.8	47.1	49.0	54.2	58.6	61.5	62.9	65.0	NA

Table 5: Ranking of Asian countries

Asian / Pacific Continent	Estimated Sales (USD Millions)	Rank	No of Sellers	Sales force (% Women)
Australia	1248.0	VI	500,000	80
China	19,990.0	II	na	na
Hong Kong	144.8	XIII	178,843	56
India	1062.7	VIII	2,012,940	67
Indonesia	575.0	IX	5,784,728	na*
Japan	22,464.5	I	2,700,000	90

Korea	7,843.2	III	3,987,933	72
Malaysia	1,134.8	VII	4,000,000	61
New Zealand	161.0	XII	1,23,524	68
Phillippines	482.4	X	3,000,000	50
Singapore	261.7	XI	464,727	30
Taiwan	1,701.1	IV	4,442,000	61
Thailand	1,559.2	V	10,000,000	66
Grand Total	49,628.4		37,194,69	67%

Source: * World Federation of Direct Selling Association

Table 6: Details of Amway India and Hindustan Unilever Network

S. No	Variable	Network Marketing format choice (Overall)
01	Age (Ho1.1)	Null hypotheses (H01.1) is Rejected
02	Gender (Ho1.2)	Null hypotheses (H01.2) is Rejected
03	Marital Status (Ho1.3)	Null hypotheses (H01.3) is Rejected
04	Education Qualification (Ho1.4)	Null hypotheses (H01.4) is Rejected
05	Occupation (Ho1.5)	Null hypotheses (H01.5) is Rejected
06	Monthly Income (Ho1.6)	Null hypotheses (H01.6) is Accepted (Not Rejected)

Source: Primary Data

FINDINGS

Findings of the study also supported significantly that self-potential influences business propensity. The remaining two attributes namely 'concept and product knowledge', 'down to earth', were found to be insignificant with respect to their contribution to Network Marketing success. Findings of the study supported significantly that 'patience for success', and 'impact of direct selling on Network Marketing' contributes to business success to moderate, marginal and maximum levels. In terms of different regions contribution to the overall direct selling industry, South India remains a key hub of activity for direct selling companies closely followed by North India. The presence of a strong base of sales consultants, combined with high awareness levels of the direct selling concept have contributed to the growth of direct selling in south India. Commercially key states like Delhi and Maharashtra have now started showing a high affinity towards the direct selling concept. Nearly 1.82 Million individuals have been involved in organized direct selling activity as sales consultants in 2008-09, with women as main sales force with 68% of the entire network. In case of IDSA member companies (not including insurance), as much as 1.2 Million individuals are employed as sales consultants

CONCLUSION

During the year 2008-09, the overall Indian direct selling grew by 17% from ₹.28,510 Million in 2007-2008 to touch ₹. 33,330 Million in 2008-2009. As much as 95% of the respondent companies posted a revenue growth in the current year. This growth was mainly attributed to increase in distribution reach and penetration and growing coverage of products being sold under the direct selling activity. The tax contribution to Indian government by IDSA member companies through direct selling industry was at ₹. 3,700 Million in 2008-2009, an increase of 18% over compare to previous year. The tax paid as a share of revenue was at 20% of the overall revenues. The indirect taxes paid by the IDSA member companies rose sharply by 41.5% primarily on account of increased complexity in the indirect taxation structure for the direct selling industry. Health products category has emerged as a leading major contributing category, with over 42% of the respondents offering these products and contributing to 32% of the overall revenues of the organized direct selling industry. The traditional product categories of personal care and cosmetics occupy a combined share of 18% of the total market, and have been covered by 51% of the companies surveyed.

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