

THE RISE OF NETWORK MARKETING IN INDIA: OPPORTUNITIES, RISKS, AND CONSUMER PERCEPTIONS

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Abstract

The business model known as "network marketing," which was popularized by the corporation Amway in the 1950s in the United States, is gaining traction in India. "It was estimated that the total sales of network marketing companies in India was Rs 301,044 crores in 2005, with an annual growth rate of 25%. This was based on projections made in the year 2005. The India Direct Selling Association (IDSA) has projected that the value of the network marketing business in India would surpass 180,000 crores by the year 2020". These projections are based on estimations made by the association.

According to a number of studies, customers often have an unfavorable opinion of direct selling organizations and, in particular, network marketing organizations. This unfavorable impression has its roots in a variety of questionable business practices, including pushy sales tactics, distortion of facts during recruitment, pyramiding frauds, and unethical behavior when it comes to abusing connections.

In the context of network marketing, this study explores the concept of exploiting relationships such as friends, family, and coworkers, as well as the mentality of channel members.

Paper Identification



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Introduction

Business organizations have, for "a long time, depended on direct marketing as a strategy to target customers without spending a substantial amount of money on retail distribution. This is because direct marketing allows businesses to reach customers directly. However, network (multilevel) marketers have taken the direct strategy one step further by hiring and training new distributors. Distributors are independent sales professionals who are members of the network marketing organization. This approach allows network marketers to take use of the direct approach. This indicates that network marketers are responsible not just for making sales but also for recruiting new distributors to join their network". Amway is credited with being the company that first popularized the 'ingenious' tactic in the 1950s.

The commission paid not only for direct sales made by the salesperson, but also from the sales made by the

recruits recruited by him, is the primary selling point of network marketing. This commission is paid on both direct and indirect sales. "That is to say, not only do you get a commission on the things that your friends and relatives buy, but you also receive a commission from the sales that your friends and relatives make to their friends and neighbors. This 'great' opportunity encourages people to join network marketing organizations as potential recruits. According to the findings of several studies, a sales staff turnover rate of one hundred percent on a yearly basis in a particular network marketing organization is not an exceptional occurrence.

According to the Direct Selling Association in the United States, network marketing businesses were responsible for earning around seventy percent of the money that was earned by the direct selling industry. The bulk of this money was produced by more well-known organizations, such as Amway, Nuskin, or Shaklee, who employ multilevel rather than single level compensation programs to distribute profits to its distributors.

In the case of India, the momentum of network marketing initially became visible around the middle of the 1990s. This was the situation in India. After this, the Amway Corporation established its operations in India by establishing a branch there. It was anticipated that the total sales of network marketing firms in India would reach Rs. 30,104 crores in the year 2005, representing an annual growth rate of 25% over the course of the forecast year. Amway India, Avon, Tupperware, and Oriflame are only few of the major players in the network marketing sector in India. Other major players are desi businesses like Modicare and Hindustan Lever Network. Amway International is one of the other major players. The Indian Direct Selling Association, often known as IDSA, is an association that assists reputable network marketing enterprises in becoming members of the association. IDSA projects that the value of the network marketing industry will

be 8,000 billion rupees in 2010. This is the amount that the industry is expected to be worth in 2010. According to the National Council of Applied Economic Research, the number of middle-class households in India is expected to increase from 1.1 crore households in the year 2001-02 to 1.7 crore households in the year 2005-06, and the total is predicted to reach 2.8 crore by the year 2009-10. It had been planned that this expansion would take place over the course of ten years. The facts presented above provide credence to the upbeat assessment that may be made about network marketing in India.

In spite of this, findings from studies carried out by Peterson et al. (1989), Raymond and Tanner (1994), and Kustin and Jones (1995) reveal that consumers often have adverse perceptions about direct selling companies and network marketing organizations in particular. This is especially the case in the United States of America. This adverse picture was formed in part due to the employment of aggressive sales strategies, the embellishment of the facts during recruiting, and fraudulent pyramid schemes. Others, such as Koehn (2001), are of the opinion that multi-level marketing (MLM) schemes are unethical and are to blame for "instrumentalizing" relationships that are predicated on love and compassion". As a direct consequence of this, these people are of the opinion that multi-level marketing is a socially and psychologically bad activity for the vast majority of people in modern society.

The goal of the researchers who are carrying out this study is to determine whether or not the phenomenal growth of network marketing in India can be ascribed to participants' taking use of personal ties with close friends and members of their own families.

Objective of the Study

The study has the following particular aims:

1. In order to investigate how connections are used for profit in network marketing

2. The purpose of this study is to investigate whether or not there is a significant difference in the likelihood of being exploited in network marketing based on the sorts of connections one has with friends and relatives.
3. In order to determine whether or not the members of the channel have a constructive mindset on their endeavors.

The hypotheses of the study are:

1. H₀: Network marketing is unlikely to take use of personal connections.
2. H₀: Friends and family will be treated equally when it comes to taking advantage of one another in network marketing.
3. H₀: Network marketing organizations are struggling because their channel members are negative.

Network Marketing: A Glossary of Terms Used in the Research

According to “the Direct Selling Association of America (WFDSA), network marketing is a subgenre of direct selling that also goes by the terms "multilevel marketing," "structure marketing," and "multilevel direct selling." The most effective way to conceptualize network marketing is as a kind of direct sales channel that lays a great amount of emphasis on its pay structure. This is owing to the fact that, depending on the structure of the network, there are generally two basic methods in which distributors (members of the network) might get reimbursed for their labor. To get things started, salespeople (also known as distributors) have the opportunity to earn commissions on the personal sales of items and services that they make to end users (those who are not members of the network). Second, they have the possibility to earn revenue from sales to or purchases made by persons (down lines) whom they have personally sponsored or recruited into the network.

This may be accomplished by selling to or buying from those individuals. These down lines will then continue sponsoring or recruiting new members for the network, sharing the benefits of the opportunity with their up lines, who were previously their sponsors or recruiters”. In light of this, an organization that engages in network marketing might be described 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." This definition is based on the fact that network marketing is reliant on personal selling.

Distributors that participate in network marketing often acquire items at wholesale costs. These distributors then have the option of either using the discounted products themselves or selling them at retail to customers at a profit. In most cases, the suggested mark up runs from 20 percent to 50 percent. In addition, distributors are eligible to get a commission each month based on their “personal volume,” which is the total worth of all of the products that they individually purchase or sell. In addition, the distributors are eligible to collect a percentage on the sales made by individuals they bring into the network as new members.

The sales that are created as a result of network marketing are not limited to the sales that are made as a result of retailing; rather, they are also generated as a result of recruiting or sponsoring independent distributors as a way of producing sales. Retailing is only one method of generating sales as a result of network marketing. “Therefore, new distributors will continue to contribute new sales to the network and will earn commission in return as long as current distributors continue to sponsor or recruit new distributors for the goal of increasing their network. This requirement is in place to ensure that existing distributors will continue to grow their network. The multiplicative effect that network marketing has will

become much more powerful when these distributors continue their efforts in recruiting or sponsoring new members. One of the characteristics that distinguishes network marketing from other forms of direct selling that make use of professional sales staff is its ability to produce a multiplying effect, which is an essential aspect of the job of recruiting or sponsoring new members”.

In the field of network marketing, the two most frequent types of business models are the sunflower and the pyramid. In the pyramid model, also known as the binary model, each distributor may only enroll a maximum of two persons into the program before moving on to the next level, however in the sunflower model, also known as the unilevel model, each distributor has the ability to build an unlimited number of nodes. In the Unilevel concept, rather than receiving money upon registration, a distributor is given a business share of the entire volume produced by his team. The initial registration is deemed to be for the product that was bought. In the binary model, one way to make money is via registration, but the primary source of revenue comes from dropouts.

Relationship

In the context of this research project, the term “relationship” refers to the emotional bond and/or the level of closeness that might exist between people such as relatives and friends. When we talk about relatives, we're referring to those who are directly connected to us, such as our brothers and sisters, our parents, our in-laws, our cousins, our nieces, and others. When the researchers refer to “friends,” they are referring to people who are reliable, trustworthy, and loyal to one another. A person's acquaintances and relatives are excluded from the definition of the term “colleagues,” which includes everyone else.

Methodology

The research was conducted utilizing primary data, which was collected via a questionnaire-based

consumer survey using a tried-and-true structured instrument. The researcher wanted to investigate how connections may be used in network marketing, thus she chose to conduct her research with Amway, a multi-level marketing organization, and the consumers who were part of Amway's network. The reason that particular business was picked is because it is now the most successful network marketing company in both Kerala and India.

The questionnaire asked respondents about their reasons for joining Network Marketing Chain, including if their choice was based on logic or emotion, whether such an endeavor was lucrative or not, whether they used the same strategy to recruit new members, and so on. A pilot research was conducted with one client group in order to develop the final questionnaire. This study was conducted with the Amway chain members located in Changanacherry.

In order for the findings to accurately represent the aims of the research, data were gathered from a total of 140 participants utilizing the easy sampling approach. The representative sample was obtained at the Amway retail location in Ernakulam over the course of five consecutive days, when channel members were shopping for items there. They were given the questionnaire when they were contacted, and data were gathered. On the basis of respondents' prior involvement in Amway's network marketing, the sample population was divided into three distinct categories and analyzed further. 48 of the respondents were less than 2 years old, 57 were between 2 and 5 years old, and 35 were more than 5 years old.

At a threshold of significance of 5%, Chi-square tests were carried out for the purpose of putting hypotheses to the test.

Findings of the Study

1. Irrespective of Whether or not the Connection was Exploited

Inferences

The results of Table 1 demonstrate that family and friends are the most common recruiters for channel members. The Chi-square test reveals that there is no connection between the respondents' prior experiences and the individuals who first introduced them.

Table 1

Observed Frequencies					
Experience	Introduced by whom				Total
	Relatives	Friends	Colleagues	Others	
Below 2 years	23	15	8	2	48
2 – 5 years	31	18	6	2	57
Above 5 years	13	12	7	3	35
Total	67	45	21	7	140

Chi- Square value = 4.060601753, Critical Value = 12.59158724, p-Value = 0.668475488

2. Reason for joining

Inferences

According to Table 2, the vast majority of respondents learned about the study via the influence of family and friends. The Chi-Square test demonstrates that a person's rationale for joining a network is strongly influenced by the individual who first connected them to that network.

Table 2

Observed Frequencies					
Reason	Introduced by whom				Total
	Relatives	Friends	Colleagues	Others	
Persuasion	43	25	3	1	72
Expecting benefit	14	14	11	3	42
Attracted by Successful cases	10	6	7	3	26
Total	67	45	21	7	140

Chi- Square value= 21.37158327, Critical Value = 12.59158724, p-Value = 0.001572804*

3. Exploitation of relationships in soliciting

Business

Inferences

According to the Chi-Square test, there is a correlation between a person's experience and the person they approach. Those with less than two years of experience

mostly approach their family, those with two to five years of experience approach their friends, relatives, and colleagues, and those with more than five years of experience primarily contact their friends.

Table 3

Observed Frequencies					
Experience	Whom contacted				Total
	Friends	Relatives	Colleagues	Others	
Below 2 years	9	20	14	5	48
2 - 5 years	20	17	12	8	57
Above 5 years	19	9	5	2	35
Total	48	46	31	15	140

Chi- Square value= 12.79296, Critical Value = 12.59159, p-Value = 0.046444 *

4. Outcome of the venture

Inferences

The results of Table 4 reveal that there is a correlation between the outcome and the experience. Those who have experience ranging from 2 to 5 years primarily see network marketing as a source of extra income and career path, while those who have experience ranging from less than 2 years to more than 5 years view it as a chance to make money. The majority of respondents with experience ranging from more than 5 years to less than 2 years view network marketing as a vocation.

Table

4

Observed Frequencies					
Experience	Outcome of the venture				Total
	A career now	Additional income	Attempt to earn	Time pass	
Below 2 years	8	19	15	6	48
2 – 5 years	22	25	7	3	57
Above 5 years	21	7	5	2	35
Total	51	51	27	11	140

Chi- Square value= 21.62220937, Critical Value = 12.59158724, p-Value = 0.001417262*

Conclusion

According to the findings of the research, connections may be used in the field of network marketing. The primary reason why people become involved in network marketing is due to the influence of their

family and friends. Members of the network who had been in the industry for less than two years were more likely to recruit relatives as channel members than friends and colleagues, while members of the network who had been in the company for more than two years were more likely to recruit friends than relatives and colleagues.

Those members of “the Network who had less than two years of experience in business were taken advantage of more often by their relatives than by their friends and colleagues, while those members who had more than two years of experience were taken advantage of more frequently by their friends than by their relatives and colleagues. The development of extra revenue was the major goal of Network members who had been involved in the company for up to five years; however, for those who had been involved in the business for more than five years, it had evolved into a profession”. In a nutshell, the following are the findings and judgments that can be derived from the study:

- The network marketing takes use of connections, such as those with friends and family. (Null hypothesis 01 does not have sufficient support).
- In network marketing, both acquaintances and family members might end up being taken advantage of. (Null hypothesis number 02 does not have any support.)
- Despite this, the members of the channel are maintaining an optimistic outlook with regard to the enterprise. (Null hypothesis number 03 does not get support)

Implications for Marketers

Marketers need to be aware of the fact that the core of network marketing is connections. It is up to the individuals who make up the channel to determine the costs associated with selecting, maintaining, and cultivating relationships. In order for it to be

sustainable, there must not be any exploitation of relationships of any kind and the situation must be win.

Scope for further research

In order to have a deeper understanding of the complexities of network marketing, the research should be expanded to include additional network marketing organizations. If dropouts throughout the network marketing chain are taken into account in the research as well, the results will be much improved. For the purpose of doing more research, it is important to take into consideration the geographical, demographic, and psychological characteristics of the network members.

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