

**A study on unethical use of relationships in Multilevel Marketing**  
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### **Abstract**

Multilevel marketing, first made popular by Amway Corporation, in 1950s in USA is now gaining momentum in India. The total turnover of Multi level marketing companies in India was estimated at INR 71641 million in 2012-13 with an annual growth rate of 12 percent. At present direct selling market is around 0.08% of the Indian GDP, and hence has huge potential to grow. According to industry experts and researchers, consumers often have negative perception of direct selling organizations and Multilevel marketing organizations in particular but once clear regulatory guidelines are in place, the Indian direct selling industry has the potential to reach Rs 64,500 crore turnover by 2025. The aggressive selling techniques, exaggerations of facts in prospecting, high product cost, pyramiding scams and unethical way of using relationships form a basis for this negative perception. This paper presents the use of Relationships viz friends, relatives and colleagues and attitude of Multilevel marketing Distributors in network marketing.

**Keywords:** Multilevel marketing, direct selling, Amway business owner, Relationships, sponsoring

### **Introduction**

#### **Multi level marketing:**

Multilevel marketing is a subset of direct selling which is known also as “Network Marketing”, “structure marketing” or “multilevel direct selling”, (WFDSA, 2000). Multilevel marketing can be described as a direct selling method that focuses highly on its compensation plan because the distributors may receive compensation in two basic ways. First, sales distributor may earn compensation from their personal sales of products and services to the consumers (non-member of the network). Second, they also may earn compensation from purchase from those persons whom they have personally sponsored or recruited into their Multi level marketing network (down lines), these down lines continue sponsoring or recruiting to the network sharing the benefits with their sponsors or recruiters (uplines). Hence, Multi level marketing organization can be defined as “those organizations that depend heavily or exclusively on personal selling, and that reward sales agents for (a) buying products, (b) selling products, and (c) finding other agents to buy and sell products” (Coughlan & Grayson, 1998).

Multi level marketing distributors purchase products at wholesale prices, and may either use products themselves or sale the products to others for a profit. In addition, distributors receive a monthly commission for their ‘personal sales volume’, which is the value of every product they personally buy or sell. Further, the distributors receive a commission on the sales of those they recruit into their network. The sales developed from Multi level marketing are not developed solely from sales created by retailing, but also developed through recruiting or sponsoring independent distributors (Cheung, 1993). The multiplying effect on Multi level marketing will expand when these new distributors continue their recruiting or sponsoring efforts to expand their sales team. This multiplying effect is an important

element in the recruiting or sponsoring function that makes the Multi level marketing quite different from other types of direct selling methods.

There are two common business models in Multi level marketing first is sunflower and second one is pyramid. In sunflower model (Unilevel model), each distributor can enroll as many nodes as possible, whereas in pyramid model each distributor enrolls two person only and they can do the same. In the sunflower model a distributor gets a business share of the total sales volume generated in his team and not dependent on registration. In pyramid model money come through the new registration and the main income comes from the dropouts candidates (The Week).

Business organizations have long relied on marketing to target its customers but it needs a huge investment, marketing activities like promotion and distribution plays an important role in the success of every business but the cost and efforts associated with it are normally very high, and sometimes become the hurdles for a company, in the darkness and thunder of cut thought competition and high investment direct selling looks like a lighthouse ,which gives a direction for distribution, proper coverage and communication to customers without spending a lot of money. Despite of all advantages direct selling has some disadvantages like low commitment level of sales personnel, unorganized activities, less control, unorganized efforts also.

Multilevel Marketers have taken the direct selling model one step further, i.e. not only they do the sales, but recruit and train new distributors i.e., independent sales persons or independent distributors who are members in the Multi level marketing company. This new method of direct selling was first popularized by Amway in 1950's. The big draw card in multilevel marketing is the commission paid not only for direct sales made by the salesperson, but also from the sales made by the recruits made by him. That is, if you get friends and relatives to join up, you get a commission not only from the products your friends and relatives purchase, but also from the sales they make to their friends (Bloch, 1996). This 'wonderful Multi level marketing' opportunity attracts people to join network marketing companies but Studies reiterate the fact that a 100 percent annual turnover rate among sales personnel in certain network marketing company is not unusual (Peterson & Wotruba, 1996).

According to the Direct Selling Association in the United States, 70% of the revenue from the direct selling industry was generated by Multi level marketing companies (Coughlan & Grayson, 1998) and most of this came from the better known companies, such as Amway, Nuskin or Shaklee, that use multilevel instead of single level compensation plans. In India, Multi level marketing momentum started during mid 90's followed by the establishment of the Amway India enterprises (an Indian arm of Amway Corporation). Amway India, Avon, Tupperware, Oriflame and Indian companies like Modicare, Hindustan Lever Network are the major Multi level marketing players in the Indian market. Indian Direct Selling Association (IDSA) provides membership to genuine Multi level marketing companies in India.

Studies done by Peterson et al (1989), Raymond and Tanner (1994), and Kustin and Jones (1995), suggest that consumers often have negative perceptions of direct selling organizations and network marketing organization in particular. The aggressive selling techniques, exaggeration of facts in recruiting and pyramiding scams (Kustin & Jones, 1995) altogether give a basis for this negative perception. There are some other researchers like Koehn (2001), who have titled Multi level marketing as unethical, and guilty of 'instrumentalising' relations rooted in love and affection and as such is socially and psychologically unacceptable to most people in our society (Bloch, 1996). The researchers in this study propose to explore whether such a phenomenal growth of Multi level marketing in India is because of the use of relationships with friends and relatives (social networks).

**Objective of the Study**

The objectives of the study are

1. To examine the unethical use of relationships in Multi level Marketing.
2. To examine the differential effect, if any, of two types of relationships with Friends and Relatives in getting exploited in Multi level Marketing.
3. To examine whether the Multi level Marketing members are having a positive attitude towards their involvement in Multi level marketing

**Hypotheses of the study**

1. H0: The Multi level Marketing is not likely to unethically use the relationships.
2. H0: There is no significant impact of relationships in Multi level marketing between friends and relatives.
3. H0: The channel members of multi level marketing companies are not having a positive attitude towards their involvement in multi level marketing.

**Methodology**

The study is based on primary data, derived through a Multi level marketing distributor survey using pre-tested structured instrument (Questionnaire). In order to study the use of relationships in Multi level marketing, the researchers define relationships as those with the personal or emotional attachment and/or affection among relatives and friends. By relatives researchers mean closely related persons like parents, siblings, in - laws, cousins, nieces and such others. By 'friends' the researchers mean those people who are trustworthy and loyal. All others, other than friends and relatives are grouped under the category of colleagues to whom respondents meets on regular basis. In order to study the use of relationships in Multi level marketing researchers selected a multi level marketing company, Amway and its distributors as the respondents. The Amway Company is selected for the study because it is the leading Multi level marketing company in Madhya Pradesh and all over the India. The Questionnaire consisted of questions pertaining to what motivated them to join Multi level marketing company, whether their decision to join Multi level marketing was rational or emotional, whether Multi level marketing is profitable work or not, and whether the same method was used to recruit other members etc. The final questionnaire was prepared using a pilot study among one Distributors group, among the Distributors of Amway at Bhopal. Data was collected from 280 respondents using snowball sampling method so that it should reflect the objectives of the study. The response was drawn from Amway distribution center, weekly meetings, workplace and home of the Distributors at Bhopal. They were approached with the questionnaire and data were collected. The sample of respondents was divided and classified into three categories based on experience as an Amway distributor. Out of total 280 respondents, 96 were having below 1 year experience, 114 between 1 to 3 years and 70 were above 3 years experience.

For testing hypotheses, Chi – square tests are administered at 5% level of significance.

**Findings of the Study****1. Whether relationship used or not**

Table No.1 shows that, relatives and friends use the relationship to introduced new Distributors in their MLM group. The Chi –square test shows that there is no relationship between MLM experience and person who introduced the respondents.

**Table: 1** whether relationship used or not

Experience with Multilevel marketing	Introduced in Multilevel marketing by .....				
	Relatives	Friends	Colleagues	Others	Total
below 1 year experience	46	30	16	4	96
between 1 to 3 years	62	36	12	4	114
Above 3 years experience.	26	24	14	6	70
<b>Total</b>	<b>134</b>	<b>90</b>	<b>42</b>	<b>14</b>	<b>280</b>

Chi- Square value = 4.060601754, Critical Value =12.59158725, p-Value = 0.668475489

## 2. Reason for joining multi level marketing

Table 2 shows that majority of respondents (224) were introduced by relatives and friends by Convincing. The Chi – Square test shows that the reason for joining Multi level marketing is dependent on the person who introduced them to the multilevel marketing hence null hypothesis is rejected.

**Table: 2** Observed Frequencies: Reason for joining Multi level marketing

Reason for joining MLM	Introduced in Multi level marketing by .....				
	Relatives	Friends	Colleagues	Others	Total
Convincing	86	50	6	2	144
MLM plan (Expected Income)	28	28	22	6	84
Attracted by Successful persons of MLM	20	12	14	6	52
<b>Total</b>	<b>134</b>	<b>90</b>	<b>42</b>	<b>14</b>	<b>280</b>

Chi- Square value = 21.3715832, Critical Value = 12.5915872, p-Value = 0.00157280

## 3. Use of relationships in soliciting Business

The Chi- Square test indicates that experience and person to whom they approach for joining MLM are related. Those who are having less than one years of MLM experience approach mainly relatives, those who have one to three years experience approached friends, relatives and colleagues, and those who is having more than three years of experience approached mainly friends.

**Table: 3** Observed Frequencies: To whom approached

Experience with Multilevel marketing	Whom approached to join Multi level marketing as a down line distributor				
	Relatives	Friends	Colleagues	Others	Total
below 1 year experience	18	40	28	10	96
between 1 to 3 years	40	34	24	16	114
Above 3 years experience.	38	18	10	4	70
<b>Total</b>	<b>96</b>	<b>92</b>	<b>62</b>	<b>30</b>	<b>280</b>

Chi- Square value = 12.792960, Critical Value =12.5916, p-Value = 0.046445

## 4. Present level of the involvement in Multi level marketing

Table 4 show that present level of the involvement of respondents with Multi level marketing is related to the experience. The majority of respondents above 3 years consider Multi level marketing as career

and those who are having experience between 1-3years mainly consider it as a source of extra income and those who are having less than two years of experience take it as an opportunity to earn.

**Table: 4** Observed Frequencies: Present level of the involvement in Multi level marketing

Experience with Multilevel marketing	Doing Multi level marketing as				Total
	A career now	Additional income	Attempt to earn	Time pass	
below 1 year experience	16	38	30	12	96
between 1 to 3 years	44	50	14	6	114
Above 3 years experience.	42	14	10	4	70
<b>Total</b>	<b>102</b>	<b>102</b>	<b>54</b>	<b>22</b>	<b>280</b>

Chi- Square value = 21.6222093, Critical Value = 12.5915872, p-Value = 0.00141726

### **Conclusion**

In the study researchers found that there is the use of relationships in Multi level marketing. People join the Multi level marketing mainly because of pressure made by friends and relatives. Multi level marketing distributors who were in the multilevel marketing business for the last one year, contacted relatives more than friends and colleagues to join as downline members while those who had more than one years experience contacted friends more than relatives and colleagues. Another way of looking at it is that multi level marketing distributors having less than one years experience in business were used more by relatives than friends and colleagues while those who have got more than one years experience were used by friends more than relatives and colleagues. The primary motive of Multi level marketing distributors who are in the business for up to three years was the additional income generation, whereas it has become a career for those who are above three years in the multilevel marketing business. In summary, the conclusions drawn from the study are:

- The Multi level marketing use the relationships viz friends and relatives. (Null hypotheses 01 is not supported).
- Both relatives and friends get exploited in Multi level marketing. (Null hypothesis 02 is not supported).
- Despite this the channel members are having a positive attitude towards their involvement in Multi level marketing (Null hypothesis 03 is not supported).

### **Implications for multilevel marketing Distributors**

Multilevel marketing distributors should be aware of the fact that Multi level marketing foundation lies with relationships. It is up to the multilevel marketing distributors to decide at what cost relationship may be used, maintained and nourished. It should be a win-win situation with ethical use of relationships whatsoever for it to be enduring.

### **Scope for the further research**

The study may be extended to other Multi level marketing companies to get more insight to the intricacies of Multi level marketing. The study will be enriched if the dropout in the Multi level marketing system is also incorporated in the study. The demographic, geographic and psychographic profiles of the Multi level marketers should be considered for further studies.

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