# Chapter I

## Introduction

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CHAPTER I

Introduction

1.1 Introduction of the Topic

Since last ten fifteen years, winds of liberalization, privatization and globalization have been blowing world over. India is no exception to this world-wide trend. In the last ten-fifteen years, India too has witnessed many changes in the business environment. The Economic Reforms Policy of 1991 has opened doors to many multinational companies in India. This gave the MNCs an opportunity to target Indian market. India being one of the largest consumer bases in the world has become an important, attractive and growth oriented target market for the MNCs. The liberalization policy and globalization have changed the Indian Market scenario. Competition has been increasing leading to a shift from seller’s market to buyer’s market. Even the profile of the customer has been changing due to changes in life style, purchasing power, education level, etc. Customers have become choosy and their expectations have increased. Due to busy life, they prefer shopping convenience. Thus, on one hand the competition is increasing and on the other hand, customer is becoming more demanding. These developments have made the business organizations to realize that emphasis on product, price and promotion is not sufficient in this competitive situation. So, the distribution aspect, which was so far, remained somewhat neglected, got their attention. This made the business organizations to use innovative distribution practices. Multilevel Marketing, one of such tools, which has been used by American business organizations, is now used in India too.

MLM helps not only to sell goods to customers but gives them an opportunity to become a part of the selling process – thus the **PASSIVE CONSUMER** became an **ACTIVE PARTICIPANT** in the company.
Multilevel Marketing is one of the non-traditional channels of distribution of goods and services. It is also known as ‘Network’ Marketing.

In network marketing, the users are buyers (i.e. customers) as well as sellers (i.e. they even sell the products of those network marketing companies) and sales manager also (i.e. they recruit other salespeople who again recruits more salespeople and thus the network forms).

In this type of marketing, the original salesperson who appoints other salesperson under his downline receives commission for the sales made by his downline salespeople. Such sales people are known as distributors or consultants.

Example:

```
  A
   / \
  /   \
B     C
   /   /\  \
  / /   / \ \
D E   F G H I
```

Here, when D, E, F, will make sales, the benefit will be derived not only by ‘B’ but also ‘A’ in the form of a ‘commission’.

This channel is used for high-margin, fast-growth opportunities in branded differentiated products.

1.2 Reasons for choosing the specific topic

Statement of the problem

Everyday we come across many people who are selling MLM products like Amway, Tupperware etc. These MLM companies have brought the products to the doorstep of the consumers & they have also provided them an opportunity to earn through MLM. But, a question arises why
these companies have resorted to multilevel marketing when conventional tools of distribution are present. Even companies like Dabur and HLL have also started using MLM in addition to its conventional channels of distribution. On one hand, the popularity and sales of MLM companies are increasing and on the other hand the numbers of cases of being cheated are also coming up, leading to frustration among people.

Observing this growth of Multilevel Marketing in India, which is one of the largest consumer bases in the world today, the researcher thought it necessary to study the concept and its uses as a channel of distribution for business organizations as well as its social consequences, good or bad. That’s why the researcher has selected the topic.

“An In depth Study of Multilevel Marketing”

1.3 Scope

Company-wise: Previously only manufacturing companies like Amway, Oriflame, etc., used this type of channel for marketing their products. But, recently, there are even such companies which are not manufacturing the goods but sell the branded and differentiated goods, from reputed manufacturers, through network marketing.

Manufacturing Companies using MLM:
Amway, Oriflame, Avon, Swadeshi, etc.

Trading Companies using MLM:
IFIC, Cymbionic, Radson Technologies Pvt. Ltd, NEO, Inway, etc.

The survey includes the distributors of both types of MLM companies.

Area-wise: The population of Pune is more than 30 lakhs. The area of Pune is 15,842 sq.mts. Pune is a growing city as regards to industrialization, education opportunities and employment opportunities. It is a center of attraction for many companies as a test market for their products. With the entry of IT companies and call centers, Pune has become not only an IT hub but also a place with ample opportunities for growth. With the increasing employment opportunities, people have more
of disposable income with more preference for shopping convenience. Many MLM companies are operating in Pune. Thus, it is a representative city from all aspects. So, the research survey includes the distributors and customers in Pune city.

1.4 **Objectives**

1) To study the concept of Multilevel Marketing and its various aspects as a direct channel of distribution.

2) To study Multilevel marketing as a means of additional income for distributors.

3) To study the factors which motivate the customers to buy from Multilevel Marketing distributors instead of other traditional forms of purchasing.

4) To study the various P’s of in Network Marketing.
   a) Product Mix
   b) Price Mix
   c) Place Mix
   d) Promotion Mix
   e) People Mix
   f) Plan Mix

5) To find out unethical practices, if any, associated with MLM and to suggest measures to stop them.

6) To study the difference between a genuine MLM Company and a Pyramid Scheme (money rolling schemes in the guise of MLM).

7) To make suggestions to the MLM companies, distributors and government to make MLM more effective.

1.5 **Hypotheses**

The researcher has formulated the following hypotheses for the purpose of the study undertaken:
1) ‘Multilevel Marketing is a tool which can
   a) lead to increasing sales
   b) provide an opportunity for additional income to the
distributors’.
2) ‘Multilevel marketing can lead to satisfied distributors and
customers’.
3) ‘Absence of regulatory framework and ignorance among
people may be the reason for fraudulent tendencies in MLM’.

The main purpose of this study was to bring to light the various
aspects of Multilevel Marketing as a direct channel of distribution of goods
as well as a source of additional income for the people involved in it.

The study tried to examine the difference between Multilevel
Marketing and pyramid Schemes, so that people should not be defrauded
in pyramid schemes [working as Multilevel Marketing Companies].

The era of liberalization, privatization and globalization have given
rise to many multilevel marketing companies in India. People are given
attractive offers to join in such companies, as distributors by paying certain
initial amount as investment. The number of MLM Companies is
increasing and also the number of distributors joining in. This situation is
exploited by some people to mislead and cheat others, through unethical
business practices. The research study also sought to find the various
types of unethical business practices going on in MLM Companies.

At present, there are various MLM Companies operating in India.
An attempt is made to suggest the prospective distributors to consider
certain factors before joining in, for the security of their investment. The
study aimed at giving suggestions to government to prevent victimization
of people in MLM system and to create awareness about MLM among the
people. It also aims to provide guidelines to MLM Companies to help them
in improving their profitability and sales performance.
1.6 Research Methodology

The purpose of the research work, “AN INDEPT STUDY OF MULTILEVEL MARKETING” is formulating a problem for more precise investigation and for developing a hypothesis. This attribute makes it an Exploratory Research.

PROCEDURE FOLLOWED FOR DATA COLLECTION:

A) DESK RESEARCH [SECONDARY DATA]:
The secondary data was collected to get an insight into the research problem and understanding the concept of MLM. Following sources were used to collect qualitative as well as quantitative data.

a) Literature: Before starting with the research on multilevel marketing, many books on the concepts of marketing were referred from various libraries viz,
   ➢ British Council Library
   ➢ Jaykar Library, Pune University
   ➢ Modern College, Shivajinagar, Pune
   ➢ Modern College, Ganeshkhind, Pune
   ➢ ICFAI, Meritum College Pune

The concept being new in India, very few books directly related to the subject were available in Pune. This difficulty was overcome by importing some books from USA.

b) Internet: To collect the more information about MLM, a search through search engines such as Google, Yahoo, msn, etc. was done. Two important sources available on the Internet were:
   ➢ The sites that companies, organizations and individuals have created to promote or communicate their products, services or views.
User group, which are made up of people who have an interest in a particular subject

- Many articles and reports related to MLM were accessed via the Internet.
- Some e-libraries like ‘netlibrary.com’ also provided access to e-books.

c) **Publications:**

- Information was collected from newspapers like Economic times, Times of India, Sakal, etc.
- Articles from magazines like Udyojak [Marathi], Business Today, Management Accountant, etc. were also referred.
- The only MLM magazine “The Business Diary” published in Hyderabad was subscribed (yearly basis) for the research work.

d) **Specialized Material: [Company Literature]:**

- The brochures and catalogues provided by the various MLM companies were used in building the company profiles, information about the products sold, compensation plans adopted by the MLM companies, and levels in the plan.
- The Catalogues were used to collect information about the pricing strategies of the MLM companies.
- The manuals were used to collect information about the mission, goals, objectives, origin, nature, annual sales turnover, growth of the company, etc.

B) **FIELD RESEARCH: [PRIMARY DATA]**

The primary data was collected to get first hand information about MLM, from the people who are related to MLM. The field research was done to collect the Qualitative Data as well as the Quantitative Data. The details of both are as follows:
B.1) **Methods used for Qualitative Research (Primary Data):**

a) **Observations of the Researcher:**
   - Various visits to opportunity meetings conducted for prospective distributors gave the researcher an insight into how MLM activities are carried on in practice.
   - The way in which people are motivated to join a particular multilevel marketing company.
   - The way in which people [prospects] look at the Catalogues and decide what to buy, why to buy, etc.
   - The way presentations are done. The researcher attended presentations at places like a five star hotel [Blue Diamond (Cymbionic), Hotel Ashish Plaza (Conibio), etc], or at sponsor’s place too.
   - Observations at training classes of Amway India have also helped in understanding the training techniques of MLM Companies.
   - Communicating with the Editor of the MLM magazine, “The Business Diary”, Hyderabad through e-mails, has helped in getting the current data about MLM.

b) **Focus Group Discussions:**

Focus group discussions provide a deeper level of understanding about people’s behavior and beliefs, though they cannot provide ‘hard’ data, with precise percentages. Due to the perceived limitations of structured questionnaires, the researcher used Focus Group Discussions to get a deeper understanding about people’s behaviour towards MLM.

These group discussions have taken place for a set period of time, to discuss a series of questions on MLM under the direction of the researcher. These group discussions threw light on new problems which the researcher tried to study. These Group Discussions were
conducted among people involved in or related to MLM industry. The details of these are given in chapter VII.

1) The first Focus Group Discussions consisted of women involved in MLM system. The objective of this Focus Group Discussion was to make an in-depth study of women’s behaviour and belief towards MLM. Though, the women involved in this Focus Group Discussions are housewives, they are active distributors of some of the MLM Companies. Their profiles are as follows:


3. Mrs. Madhu Goyal, distributor of Versatile.

4. Mrs. Nidhi Anand, distributor of Oriflamme

2) The second group discussion was held among three distributors of Cymbionic and FIC, which are MLM Companies. The objective of this FGD was to probe into the various reasons of the failure of certain MLM Companies and the reactions of people to such failed MLM Companies. The profiles of the participants are as follows:

I. Ms. Neeta, Gemologist, proprietor of Astha Jevrat & Institute of Gemology, M. G. Road. Pune. She was a distributor of Cymbionic and FIC.

II. Mr. Rahul Khandelwal, Proprietor of Tile Art, M. G. Road, Pune. He was a distributor of Cymbionic and FIC and at present is a distributor of Amway.

III. Ms. Jivita Gujar Salvi, Lecturer in Modern College, Shivajinagar. She was a distributor of Cymbionic and FIC.

C) IN-DEPTH INTERVIEWS:

Since the researcher was carrying out an exploratory research, there was a need to conduct in-depth interviews to get an understanding
about the behavior, beliefs and attitudes of people towards MLM industry. The length of those interviews ranged from 10 minutes to 50 minutes. The people who were interviewed were management and marketing experts, legal experts, and people who are or who were distributors of MLM Companies. The details of the date, venue, time, etc. of the interview and the profiles of the interviewed people are given in detail in the chapter of observations. Following is the list of people interviewed:

1 **Marketing Experts:**
   a) Dr. Dilip Saravate
   b) Dr. Subhash Bhave

2 **Legal Experts:**
   a) Mr. Mane (Registrar of Companies)
   b) Adv. Madhugeeta Sukhatme (Judge of Consumer Court)
   c) Adv. Rounak Shah (Practicing lawyer)

3 **Players in MLM:**
   a) Mr. Anjum Yusuf Shaikh
   b) Mr. Rajesh Agarwal
   c) Mr. Niaz Ahmed Sayyed
   d) Mr. Vinod Goyal

4 **Trainers of MLM Companies:**
   a) Ms. Rohini Hatangadi
   b) Mr. Manipal

5 **Victims:**
   a) Dr. Goyal (Physician)
   b) Ms. Shanta (House wife)
   c) Mr. Arvind Nerkar (Public Relations Officer at MEB)

**PROCEDURE OF IN-DEPTH INTERVIEW**

1) Prior Appointments were taken from these respondents
2) The interviews were conducted within a range of 15-50 minutes.
3) The venue of the in-depth interviews was the working place or office or the residence of the interviewed people.
4) An unstructured questionnaire was used for this purpose which included basically questions related to present and future prospects in MLM industry in India.

5) All the interviews were recorded with the help of a tape recorder and wherever possible a photograph of the interviewed person is also taken.

6) The excerpts of the interviews are given in the observations chapter. The analysis and conclusion is also given in the same.

B.2 Quantitative and Qualitative Research through Questionnaires (Primary Data):

Two types of Questionnaires were prepared, one for the distributors and the other for the consumers. A random sample of 200 distributors and 200 consumers in MLM industry was selected. Questionnaires were distributed to 250 distributors, but only 200 completed questionnaires were received, 220 questionnaires were distributed to consumers, but 200 completed questionnaires were received.

PILOT STUDY: Before applying the questionnaire for the complete sample, a pilot study of 35 respondents (20 distributors and 15 consumers) was carried out. This helped the researcher to revise the questionnaire, to collect more relevant data.

SCOPE OF THE SAMPLE SURVEY: Pune is a growing city as regards to industrialization, education opportunities, and employment opportunities. It is a centre of attraction for many companies as a test market for their products. Many big MLM companies are operating in Pune. Thus it is a representative city from all aspects. So, the research survey includes the distributors and consumers in Pune city.

POPULATION SAMPLE:
The total number of distributors in India in the MLM industry is about 13,00,000. However, there is no authentic data available about the total number of distributors operating in MLM Companies, in Pune. So, it is a
floating population. Therefore, a random sample of 200 distributors and 200 consumers in MLM system were selected for the sample survey.

**Number of questionnaires** [Received in completed form]

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<td>Distributors</td>
<td>→ 200</td>
</tr>
<tr>
<td>Consumers</td>
<td>→ 200</td>
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<td><strong>Total</strong></td>
<td>→ 400</td>
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**Questionnaire Design:**

While designing the questionnaires, the following **purposes** were given priority:

- To collect accurate information from respondents.
- To provide structure to the interviews.
- To provide a standard form on which facts, comments and attitudes can be used.
- To facilitate data processing.

1) Numeric rating scales as well as verbal rating scales like Likert's scale has been used to measure attitude of the distributors. These rating scales helped to measure the strengths and weakness of the MLM system.

2) Open-ended as well as close-ended questions were used according to the type of information to be collected.

3) The close-ended questions helped in analysis of the data, most of which is represented in the form of charts and graphs in the observations chapter.

4) The open-ended questions were asked particularly for suggestions, challenges and problem of distribution faced by MLM.

5) Two questionnaires were framed one for the Distributors and one for the customers.
B.21  **QUESTIONNAIRE [FOR DISTRIBUTORS]:**
The features of this questionnaire are as follows:

a)  In this questionnaire, different types of questions related to the behavior and attitude of distributors (Likert’s scale) towards MLM system were framed.

b)  The **objective** of this questionnaire was to find out the reasons for joining MLM and measure the satisfaction of the distributors [in MLM system] with regards to income, delivery system, etc.

c)  This questionnaire included close ended as well as open-ended questions.

d)  Since many distributors [in Pune] understand only the vernacular language, 50 copies of this questionnaire were printed in devnagiri script [Marathi].

e)  This questionnaire had 8 sections divided into:
   - Personal information.
   - Factors influencing the choice of MLM company.
   - Training in the MLM Company.
   - Satisfaction of the distributors towards various aspects of MLM.
   - Product and services of MLM Companies.
   - Investment and income in MLM Company.
   - Customer satisfaction about MLM products.
   - Other information related to inventory loading, bad experiences, cheating etc. This section also included open-ended questions like challenges in MLM and suggestions to improve the MLM system.

2)  **QUESTIONNAIRE [FOR CUSTOMERS]:**
The features of this questionnaire are as follows:

a)  The objective of this questionnaire was to study buyer behaviour i.e. why and how they buy – also why they do not buy from MLM companies.

b)  This questionnaire was divided into two sections.
Section A: People who buy products of MLM Companies.
Section B: People who do not buy products of MLM Companies.
c) All the questions were close-ended.
d) The first section included nine close-ended questions. These questions were related to the different purposes, frequency and reasons of buying products of MLM Companies. The questions were even related to the prices and quality of the products.
e) The second section was made up of only one question which was related to the different reasons of not buying products of MLM companies.
f) This questionnaire was distributed to 220 consumers. Out of which, only 200 were received in completed form. 20 questionnaires were not received.

Analysis Of The Data:

A) Primary Data: The analysis of the data collected (through Questionnaires for distributors and customers) was done with the help of a software MS-Excel. The data is presented in the form of tables and bar diagrams. This procedure was followed for close-ended questions. After the analysis, conclusions were drawn on the basis of the observations made. The data was analyzed using mathematical and statistical tools. The hypotheses are tested by using Chi-square test, Comparison of Observed and Expected Frequencies Method and percentages, wherever applicable.

The questionnaire for the Interviews and Focus Group Discussions has been unstructured and it covered a range of topics varying between different respondents. The interviews and group discussions have been tape-recorded. Later, the notes were prepared with the help of those recordings. The excerpts of the interviews and FGD’S have been presented. Some verbatim quotations from individual
respondents have also been mentioned. Digital photographs of the interviewed people have also been provided wherever possible. Based on this data, the researcher has provided the observations and conclusions. The suggestions to the MLM companies, distributors and Government are given on the basis of the conclusions drawn. (Chapter VIII)

**B) Secondary Data:** The Secondary Data was collected from the websites, newspapers, magazines, publications, etc. The quantitative data was processed using **Index Numbers** and **percentages**. The observations were made on the basis of this data and accordingly conclusions were drawn.
1.7 **Constraints in the study**

The constraints in the research work are listed below:

1) The exact population of distributors and customers of MLM products in Pune is not available; therefore the ideal central values are not available.

2) There was a paucity of statistical data on the total number of MLM companies and total number of distributors working in them in Pune. Even the visits to ‘Maratha Chamber of Commerce’ and ‘Office of Registrar of Companies, Pune’, and offices of MLM companies were not that fruitful.

3) Some of the Questions in the questionnaire are very subjective and therefore subjectivity crept in. **For Example:** How do the distributors rate the remuneration received through MLM?

**Excellent / Good / Satisfaction / Not Satisfactory / Poor.**

A particular income level may be satisfactory for one distributor but poor for another distributor.

Such responding to queries is beyond the control of the researcher.

4) Some distributors understood only vernacular languages so it was difficult to complete the Questionnaires (in English) with the technical terms. To some extent, this limitation was overcome by printing 50 Questionnaires in Marathi.

5) The MLM Companies do not publish their annual reports, so it was difficult to study the progress of their sales performance. The data collected only through the magazine and internet sites of direct sales organization has provided on the total growth of direct sales.

6) MLM Companies differ in products, backgrounds, etc. so a comparison in their performance was found difficult.
1.8 Chapter Scheme

Chapter I This chapter includes the introduction of the topic, the reasons to choose the specific topic, hypotheses and research methodology.

Chapter II It includes the Literature Review of Multilevel Marketing, the 6P’s of MLM, Product Mix, Price Mix, Place Mix, Promotion Mix, Plan Mix, People Mix, Legal aspects of MLM in other countries.

Chapter III It contains the collection of secondary data (Qualitative and Quantitative), Legal aspects of MLM in India, Growth of MLM in India, Cases related to MLM and debate on MLM in Parliament.

Chapter IV It gives the profiles of the major MLM Companies. These MLM Companies are well established at the Local, National and International Level also. It contains the observations about those MLM Companies and the current MLM scene.

Chapter V It gives the observations and conclusions of the survey of distributors [Quantitative and Qualitative data].

Chapter VI It gives the observations and conclusions of the survey of consumers [Quantitative and Qualitative data].

Chapter VII It gives the observations and conclusions of the personal interviews and Focus Group Discussions [Qualitative data].

Chapter VIII It gives the summary of conclusions, testing of hypotheses, recommendations and new areas of research.

Appendix It contains glossary of terms used in MLM, the Questionnaires for the distributors and consumers, Bibliography.