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3.0 Methodology

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ENHANCING THE PROSPECT FOR THE ADAPTATION OF NETWORK MARKETING IN A DEVELOPING ECONOMY

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Abstract

This paper examines the prospect for the adaptation of network marketing in a developing economy. The debate on the introduction and adaptation of network marketing started some centuries ago, with marketing scholars debating the question on the acceptability of the concept and today the debate is continuing. This study attempts to assess the factors that account for the rather slow rate of the acceptance of network marketing in the Kano metropolis as a profession or an alternative source of income, using a survey research method. Two hundred and fifty (250) copies of the questionnaire were designed and analyzed for the sample respondents. The questionnaire was distributed to distributors in Kano metropolis. The findings revealed three key factors that contribute to why people fail to accept network marketing as a profession, a lack of understanding of the system, lack of awareness of the system, lack of trust believing it to be pyramid scheme. An understanding of the factors identified in this study will allow policymakers and organizations to direct efforts and resources most effectively and efficiently to increase network marketing business in the long run and encourage people to adopt network marketing. The conclusions are sufficient to demonstrate a need for wisdom in exploring means to create a better context for network marketing in the future. With this confidence, individuals of each company should have the desire to expand their network marketing companies globally because it raises revenue for the companies, the country of domicile and the individuals.

Keywords: Multilevel Marketing; Traditional Direct Selling; Pyramid Scheme; Understanding; Trust

1.0 Introduction

In contemporary times many companies market their products through an innovative selling method called network marketing (NWM) or multilevel marketing (MLM) (Hassounah & Brengman, 2015). NWM is an innovative method of selling and distributing products throughout the world. Not much have being documented about it. The mere fact that a lot of NWM companies are entering Nigeria calls for a thorough understanding of the NWM business model. There are lots of NWM Companies coming into the Nigerian market; some are registered with Cooperate Affairs Commission (CAC) and Nigerian Foods and Drug Administration (NFDA), while others come into the country without the knowledge of these bodies. In some cases, people come in contact with these NWM Companies online (Agbo, 2013).

Therefore, not knowing and understanding how the business model operates can lead to no acceptance. Every day individuals come in contact with one NWM product or the other making it necessary to have

an understanding of what it is, becomes important. Most individuals become aware of NWM companies either through distributors of NWM Companies or being a customer of one of these companies' products or on the internet. NWM is a huge, global industry. Estimates of worldwide sales are as high as ninety billion dollars according to World Direct Sales Association (WDSA, 017). The industry appears to be growing but unfortunately, with the growth of the industry has been the growth of questionable companies and practices (Bosley & McKeage 2015). Not only are there potential legal problems, but multilevel marketing as a whole also has a negative image among many consumers (Reingewertz, 2016; Lee, Lau & Loi 2016; Kopp, 2016). These may be some of the reasons why people find it difficult to embrace NWM.

However, this negative image of NWM is not universal for many people are strongly in favour of NWM and show preferences for products or services that are distributed through such marketing channels (Kim & Manchanda, 2016). With more and more of these NWM Companies entering the Nigerian market, there is a need for a better understanding of why people are reluctant in accepting the NWM business model. As an active member of NWM, it has been observed that people find it difficult to accept this business model claiming that it is a pyramid scheme, thus, there is a need for clarity. Clarity becomes more apparent because with all the negativity the growth of this NWM industry has always increased geometrically. These are some of the companies engaged in network marketing in Nigeria GNLD, Forever Living Products, Tiens, Trevo, Edmark and Alliance in motion global to name just a few.

The main objective of this study is to identify factors that contribute to why people fail to accept MLM as a profession. Specifically, the research looks at the lack of understanding of the system, lack of awareness of the system, lack of trust and belief in the pyramid scheme.

2.0 Literature Review

Network Marketing

Network marketing is an offshoot of direct marketing, known a system in which a manufacturer (network marketing firm) pays people outside the company to sell its products and services directly to consumers (Harris, 2004). Network Marketing (NWM), generally refers to the practice whereby products and services are sold by an agent or distributor to individual consumers through homes, offices and other non-retail stores (Brodie, Albaum, Chen, Garcia, Kennedy, Msweli-Mbanga, Wotruba, 2014). Though there is no widely accepted definition of MLM yet, the American Marketing Association (AMA) defines it as a strategy and selling approach of companies to carry out direct sales by using independent agents (distributors), structured on many levels to sell the company goods/services to other agents or end-users (Miekina, 2012; Rekha, 2013).

Ehmke (2005) multi-level marketing is "a system of selling a firm's product which involves a 'pyramid' of salespersons. Independent distributors sell the product to friends, acquaintances, etc. but are also offered a financial incentive to recruit other people as salespersons, who in return, recruit yet more salespersons." The structure of this type of business is called Network marketing. It is of utmost importance to understand that although multi-level marketing businesses have a pyramid structure, they are not pyramid schemes (Keep & Nat, 2014). Albaum & Peterson 2011, Bhattachary & Meththa 2000; are of the view that Network marketing is "a way of distributing products and services whereby distributors earn income from their sales and from the sales/purchase of those whom they directly or indirectly" recruit. To recognize the successful opportunity available to individuals and appreciate its opportunities one must first look at those factors that inhibit the understanding of the structure of the Network marketing business (Wells, 2010).

From an understanding of NWM, you go to a restaurant and have the most amazing meal of your life. You then tell all your family they have to try it. Has the restaurant paid you to tell them? NO! Network Marketing allows you to share amazing products with family and friends plus you get paid. Network Marketing is growing because people are tired of not having the time or control of their own lives anymore (Merlin 2012). NWM is here is an avenue whereby many graduates that are unemployed and out of jobs for many years and many are laid off without any notice can have a means of making a living. MLM gives the business owner freedom from all the headaches of employees and overhead (Grayson, 2007).

Evolution of Multilevel Marketing

The first multilevel compensation plan is commonly attributed to Carl Rehnborg. He founded the California Vitamin Company (later called Nutrilite Products, Inc.). Rather than allow his salesmen to only receive one-time fees, he created a way for them to have a steady income through recruiting other salesmen (Merlin, 2012). Poe (1999) categorizes MLM history into four different waves. According to him, these waves are Wave 1 (1945-1979), The Underground Phase; Wave 2 (1980-1989), The Proliferation Phase, Wave 3 (1990-1999), The Mass Market Phase, and Wave 4 (2000 and beyond), the Universal Phase. Poe (1999) opined that the beginning of Wave 1 was when Rehnborg introduced his new compensation plan in 1945. The idea spread in legitimate and fraudulent arenas, making it the "Wild West phase." In essence, the Wild West phase was marked by con men taking advantage of other people. The end of this phase came with the decision in the Federal Trade Commission ruling on Amway Corporation.

During the 1980s, the NWM model slowly grew, spreading quickly as hard-working people continue to accomplish their goals. Since the model required a lot of personal commitment and good communication skills, many people dropped out before they saw any rewards (Poe, 1999). Wave 3 is categorized by the exponential growth of the existence and knowledge of NWM (Poe, 1999). From 1991 to 1998, NWM participation went from 5.1 million to 9.7 million members and \$13 billion sales to \$23 billion sales (Sparks & Schenk, 2006). This growth was facilitated by the change in technology, like satellite television broadcasts and dedicated voice mail, with these developments recruiters could now recruit and train their down-lines faster. With more down-lines, they could make more money with less work. In short, technology has lowered the cost of creating successful NWM down-lines (Poe, 1999).

Pyramid/ Ponzi Scheme

Most people mistake NWM for the Ponzi scheme therefore it is important to differentiate between NWM and pyramid schemes. Pyramid/Ponzi schemes often make promises of high returns centered upon recruitment rather than retail sales (Koehn, 2001; Vander & Keep 2002). Pyramid schemes also require a large upfront investment; they appeal to human greed, fear and exploit trust in social networks. As such, pyramid schemes have often been perceived negatively, profiteering from questionable ethics, misrepresentation and leveraging on the numbers game (Kustin & Jones, 1995, Vander and Keep, 2002, Koehn, 2001). The modus operandi of Ponzi schemes is via a promise of extremely superior returns to investors in a short period by rolling over investments of its members (Wells, 2010). Ponzi schemes do not link investments with commercial activity (MMM). A pyramid scheme is a non-sustainable business that involves the exchange of money, usually in the form of a sign-up fee, and usually has no product or service (Koehn, 2001). Pyramid schemes are illegal because the only people that can make money on a pyramid scheme are the people at the top of the pyramid. The above picture proves that pyramid schemes are unsustainable. Pyramid schemes offer no product or service; no possible way exists for the people at the bottom of the pyramid to make any money. The only way to make money in a pyramid

scheme is to sign-up new members for a fee. However, this becomes impossible when the scheme reaches a certain level. The result is that people can spend upwards of several thousand dollars to enroll in one of these scams and will end up losing everything (Koehn, 2001).

As the United State Securities and Exchange Commission states, the hallmark of these schemes is the promise of sky-high returns in a short period for doing nothing other than handing over your money and getting others to do the same. The fraudsters behind a pyramid scheme may go to great lengths to make the program look like a legitimate MLM program. But despite their claims to have legitimate products or services to sell, these fraudsters simply use money coming in from recruits to pay off early-stage investors (Rekha, 2013).

There are other identifying characteristics of a pyramid scheme and they include:- i) vague descriptions about the company; ii) product that sells at a highly inflated price; iii) majority or all of the possible income to be made comes from the sign-up fee from new enrollees; iv) there are always repeated assurances that the company is completely legal; v) a pyramid scheme relies on continual recruitment as a mechanism for generating compensation for participants. Non-product based pyramid schemes are simply wealth transfer schemes similar to but distinguishable from Ponzi schemes. Unlike a Ponzi scheme, which relies on voluntary investments of new entrants to fund the investment returns paid to earlier entrants, a pyramid scheme compensates participants to recruit others (Securities and Exchange Commission, 2013).

Traditional Direct Selling

In traditional direct selling, sales to non-distributor customers generate commissions to the sales force, with branch managers getting rewarded for total sales volume, while NWM “business opportunity” ties together different themes of entrepreneurship (Brodie, et al. 2014): i) selling products to non-distributors, ii) earning company compensation based on personal purchases and the purchases of a distributor’s down-line. The first income source comes from retail selling to none distributors and the second comes from the sales of the down lines. Examples of NWM products sold to non-distributor customers can be found on websites such as eBay. All company compensation in NWM is derived from purchases by a distributor and his/her down-line that reaches or exceeds pre-specified targets or volume. Failure to achieve these levels means little or no company compensation for the distributor (Coughlan & Grayson, 1998).

NWM model differs from the traditional model in multiple ways: i) shift recruiting training, and supervising of new salespeople onto the sales force (Vander & Keep 2002). The parent firm can now be free from some of its costs (Grayson, 2007) and concentrate on other aspects of the company. ii) the branch manager in traditional direct selling is responsible for the size and effectiveness of the sales force, but in NWM, potentially everyone recruited can recruit and train others. The NWM business model has new vocabulary, such as up-line or sponsor, down-line or success line, personal volume, and group volume. Vocabulary varies across NWM, with firms labeling their salespeople as “Distributors,” “Independent Representatives,” “Partners,” “Associates,” and “Independent Business Owners” (for simplicity here we use the term “distributor”).

Factors inhibiting the acceptance of NWM

Understanding the System: The distributor in NWM is a direct seller or Independent Business Operator (IBO) who acts as the frontline sales force for an NWM company. To qualify as a distributor of any NWM company, an individual is expected to purchase an initial start-up package (Antriksha, 2014). These distributors are not employees of the company, they are not contractual employees, and do not receive a fixed salary and benefits, therefore the company will not terminate them even if they fail to

achieve the envisioned target (Ehmke, 2005). They are very independent and earn a bonus from those they have successfully recruited directly (Satterley, 2012). When the new distributor recruits another distributor, then the recruit becomes the down-line while the recruiter becomes the up-line in the same network. Their performance is measured by the amount of or value of the product purchased and recruitments that generate the volume for their network. A distributor is paid a bonus based on his purchase volume as well as the group volume contributed by the network (Keep & Nat, 2014). Existing distributors need to recruit new distributors to grow their business (in essence their income). To recognize the opportunity available to individuals and appreciate it one must first look at those factors that inhibit the understanding of the structure of NWM. There is wide literature on employee satisfaction and distributor's motivation in NWM but no study on factors that inhibit acceptance of NWM in the Kano metropolis in the literature.

Trust in MLM: NWM is a business model built on trust. Trust is a strong variable of any business relationship. Rotter (1967) defines trust as "a generalized expectancy held by an individual that the word of another can be relied on". He suggests that one of the key variables in every organization is trust between individuals, and the existence of any social group is highly dependent on trust. Moorman et al. (1993) define trust "as a willingness to rely on an exchange partner in whom one has confidence". According to Gonzales (2002), trust is one of the most essential constructs for successful relationship marketing and defines it as "existing when one party has confidence in an exchange partner's reliability and integrity". Thus, for anyone to succeed in NWM there must be trust between the distributor and the potential distributor. Hence, NWM emphasizes the importance of personal relationships in building a network (Poon, Albaum, & Yin, 2017). Building trust is more challenging in MLM because distributors in MLM organizations are independent and are not company staff; they have no fixed business address, therefore, giving it a high level of uncertainty. This situation hinders trust-building (Poon, et al, 2017) thereby increasing the reason why people are reluctant to accept the MLM business model.

3.0 Methodology

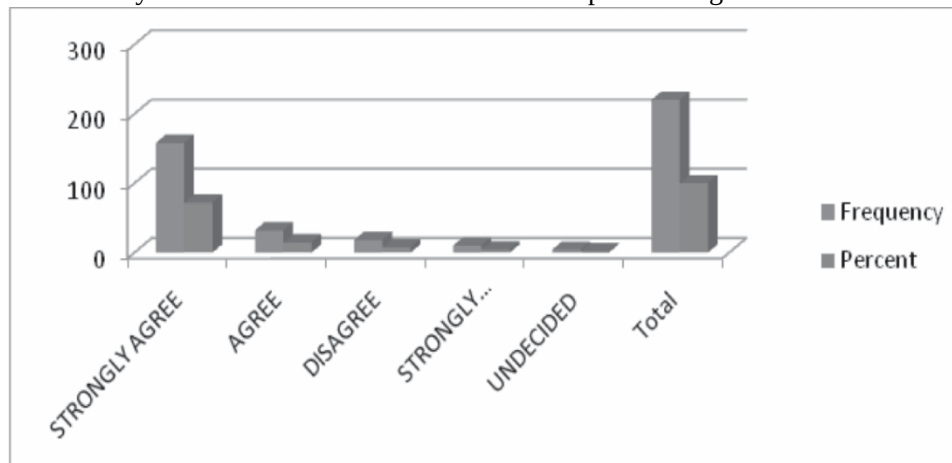
Based on the aforementioned, the major objective of this paper is to identify factors that contribute to why people fail to accept MLM as a profession. Using a survey research approach, The questionnaire was the major instrument used for the collection of information from the sample population. Two hundred and fifty copies of the questionnaire were designed and analyzed for the sample respondents. The questionnaire was distributed to distributors in Kano metropolis. The researchers took time to explain to the respondents the purpose of the study and need to be objective in answering the question appropriately because the concept of network marketing is relatively new to most of the respondents. All these were done to ensure an accurate report of responses to the questionnaire and this minimised misrepresentation and misinterpretation of the content of the instrument. The study used purposive sampling techniques to collect data that was used for this investigation. The questionnaire was analysed through frequency distribution analysis which was further displayed by charts.

4.0 Result and Discussion

Table 1: Multi-Level Marketing businesses is a acceptable career option					
Variables		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	158	71.8	71.8	71.8
	Agree	32	14.5	14.5	86.4
	Disagree	18	7.3	7.3	93.6
	Strongly disagree	10	4.5	4.5	98.2
	Undecided	4	1.8	1.8	100.0
	Total	220	100.0	100.0	

Source: Field survey, 2020

Table 1 revealed that the majority of the respondents agreed that NWM businesses are acceptable career options. This represents 71.8% of the sample population that was strongly agreed. Also, about 14.5% of the sample respondents agreed that NWM businesses are an acceptable career option that must be encouraged among the youth because they provide employment opportunities for the unemployed graduate in the society. However, about 7.3% and 4.5% disagreed and strongly disagreed that the MultiLevel Marketing business is an unacceptable career option. They considered it as an unstable business that may not be sustainable. This was further depicted in figure 1 below.



Source: Field survey, 2020

Figure 1: Multi-Level Marketing businesses is an acceptable career option

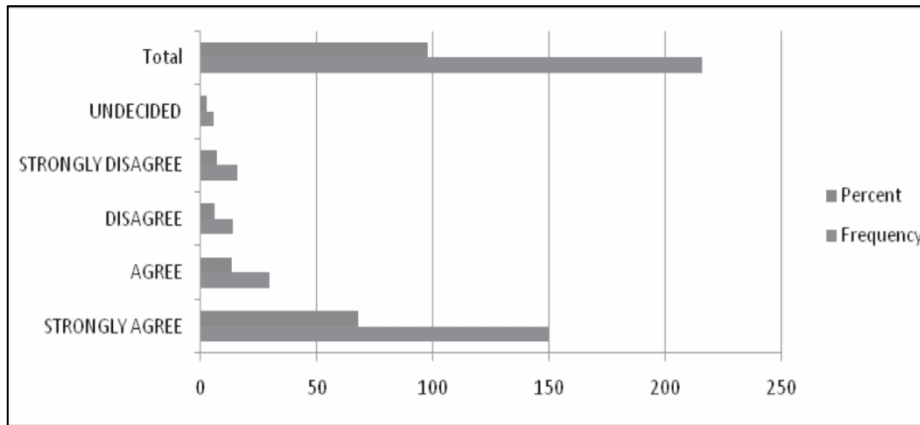
Table 2: Multi-Level Marketing business is preferable to white-collar jobs

Variables		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	150	68.2	69.4	69.4
	Agree	30	13.6	13.9	83.3
	Disagree	14	6.4	6.5	89.8
	Strongly disagree	16	7.3	7.4	97.2
	Undecided	6	2.7	2.8	100.0
	Total	216	98.2	100.0	
Missing	System	4	1.8		
Total		220	100.0		

Source: Field survey, 2020.

Table 2 also revealed that 68.2% of the sample respondents preferred NWM businesses to whitecollar jobs. According to these respondents, they have freedom and control of the business. More also, they further believed that since they are in charge of the business, the commitment is usually higher than government work. 13.6% of the respondents also agreed that they preferred Multi-Level Marketing businesses to government work. According to these respondents, they are usually able to plan and adjust their strategy based on the morale of the customers. However, 6.4% of the respondents and 7.3% of the respondents disagreed and strongly disagreed that they will rather prefer government work because of the stability in the income even if it is small. They will be able to plan and adjust accordingly . This was further depicted in figure 2 below.

Figure 2: Multi-Level Marketing business is preferable to white collar jobs



Source: field survey, 2020

Discussion of Findings

Recent advances in NWM businesses have impacted strategic thinking and in recent times emphasis is being placed on NWM businesses and collaborative relationships as key drivers of business success. The thinking on Multi-Level Marketing businesses was that it will create more jobs for the teaming youth in Kano State and Nigeria in general. The study findings revealed that the majority of sample respondents supported NWM businesses because of their freedom and independence associated with the nature of business. Although it was argued that some industries are more attractive than others as evident in their growth/.

Thus, industry selection for NWM businesses was an important component of competitive strategy that participants must closely examine. NWM businesses must also be conscious of location, it must be more advantageous locations in the competitive position matrix, participants must recognize the need for both competitor and customer focus. These manifestations of market orientation for NWM businesses are also being surrounded by the triad of business collaborations: internal, external, and horizontal (Kopp, 2016). Product knowledge and the ability to motivate an employee is essential ingredients for any business organization (Reingewertz, 2016). This must also be factored into NWM businesses. Henceforth, environmental factors must not be neglected in NWM businesses if the distributors want to achieve success in their career options.

5.0 Conclusion and Recommendations

In conclusion, the factors discussed above can be the reasons why people are hesitant in accepting NWM in Kano metropolis. If there is a proper understanding of the business model acceptance will follow. Explicitly understanding the difference between MLM and pyramid schemes will also boost the level of acceptance of MLM. MLM business is built on honesty and trust; therefore, distributors must have a high level of credibility and integrity, this will further enhance the acceptance of NWM. Although NWM business models are initially considered to be pyramid schemes, each company must continually show unbelievers what each company represents. Representatives of each company must have a clear understanding of the differences between a pyramid scheme and NWM so they can address the issue effectively. Participating distributors must defend the truth and background of NWM Company to those who know nothing about the structure of the business model. Most NWM businesses allow individuals to sell their products directly for money (retail profit) and build their teams to earn commissions. The conclusions are sufficient to demonstrate a need for wisdom in exploring means to create a better context for MLM in the future. With this confidence, individuals of each company should have the desire to expand their NWM Company globally because it raises revenue for the companies, the country of domicile and the individuals.

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