Structure and characteristics of network marketing businesses

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Abstract

The paper describes network marketing businesses within direct selling industry. Firstly, key aspects of network marketing business concepts, especially the structure of the sales organisation and the distinctive characteristics of network marketing compensation plans are presented. Secondly, hierarchic and network characteristics of network marketing organisations are described. Finally, the concept of network marketing opportunity structure is introduced, and various distributor roles within this structure are discussed.

Introduction

Network marketing (NM) organisations are direct sales companies that operate through a sales organisation consisting of non-employed individuals. NM sales organisations grow through the social network of the sales people; i.e. NM distributors² are allowed to recruit new members into the organisation among their social contacts. The growth potential of a NM-organisation is related to the idea of theoretically exponential expansion of the distributor organisation – a distributor recruits three new distributors, these new ones each recruit three more and so on.

NM phenomenon raises both sheer enthusiasm as well as merciless criticism whenever discussed or experienced (see Appendix 1.). On the one hand, NM companies offer various benefits for individuals joining the sales organisation ranging from discounts on the product purchases to the opportunity to start a business with no significant financial risk or occupational/educational requirements involved. Entering a NM business evidently appeals to those enterprising individuals unable or unwilling to start a traditional business.

On the other hand, critics suggest that over-enthusiastic distributors may easily violate their social relationships in their effort to turn them into business relationships either by hard selling or by heavy recruitment. Also, easy entry to the business may involve unrealistic expectations about the future business success, and consequently lead to disappointments and negative images of the entire business concept.

So far, there is only limited amount of research on NM practices. Still more and more companies as well as some researchers have currently started to evaluate NM business concept as a significant alternative for more conventional direct marketing channels (Coughlan and Grayson 1998, Croft and Woodruffe 1996, Herbig and Yelkur 1997).

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² NM companies typically use the term ‘distributor’ and ‘distributor organisation’ instead of sales representatives, sales people or sales force in order to emphasise the more diverse role of NM distributors compared to that of traditional direct selling person. For the practical purposes, the terms used in this paper are mainly adopted from the NM contracts and other documents used by practitioners.

in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999
Evaluation of current NM business practices as well as review of the academic literature on sales management and organisational behaviour indicate that NM companies face several managerial problems and challenges which are not common in traditional direct selling companies. Furthermore, examination of the marketing implementations occurring in NM context may prove to be beneficial for marketing management in general, independent on the organisational structure of the sales marketing unit.

**Purpose of the paper**

This paper is a part of a doctoral research project focusing on the development and management of network marketing sales organisations. The goals of the paper are threefold

The first goal is to increase our knowledge of network marketing business practices in general, as there exists only limited amount of academic research focusing on this phenomenon. First, the paper discusses current network marketing practices in non-store retailing and direct selling context. Second, the paper identifies key characteristics of NM business concepts including multilevel organisational structure, distinctive aspects of compensation plans, as well as hierarchic and network characteristics of NM sales organisations.

The second goal of the paper is to briefly review prior academic research on NM practices.

Finally, the main goal is to propose a set of concepts, through which NM businesses can be examined and evaluated. First, the paper describes business opportunities incorporated in the NM business concept and introduces the concept of NM opportunity structure. Second, the paper proposes a basis for a distributor role categorisation and, as a conclusion, discusses the advantages of examining network marketing businesses from a role theoretical perspective.

The description of business practices is mainly based on three sources; scarce academic literature on network marketing practices, researcher’s working experience as a NM distributor and as an advisor for NM companies and documentary data – company material, newspaper articles, distributor interviews, literature for practitioners (e.g. Dewandre & Mahieu 1995, Poe 1995) - collected during 1994-1999.

The conceptual framework for the study is mainly based on literature on

1. role analysis, rooted in the psychology of individual differences and social psychology,
2. sales management and
3. organisation behaviour.

**Network Marketing Business Practices**

This section examines network marketing business practices within non-store retailing and direct selling industry and briefly discusses prior research on NM practices.

Key figures in network marketing industry

All non-store retailing combined currently accounts for only a modest percentage of all retail sales (5-10%), with little growth in recent years (Alba & al. 1997). Still, several
academics interested in nonstore retailing indicate increasing interest in home shopping encompassing buyer behaviour through catalogues, direct mail, telephone, direct sales, television home shopping (McDonald, 1995) as well as Internet, CD-ROM catalogues, and highly advanced forms of interactive home shopping (IHS) channels (Alba & al. 1997).

Especially the direct selling industry based on personal contact between a sales person and a customer has grown significantly during the last decade. Global retail sales have increased more than 2.4 times and the number of salespeople has more than tripled. In 1997, the estimated global retail sales through direct selling were USD 80.47 billion and the number of salespeople totalled more than 30.9 million. (WHDSA, 1998). Furthermore, the interest in direct selling seems to exceed the level of recent purchases, although marginally, indicating still room for continued growth (Wirthlin Worldwide 1997).

Today, NM is one of the most applied direct selling concepts in the world. In this context, NM refers to the development of a legitimate retail selling and distribution network that grows via a social network (Coughlan & Grayson, 1998). For example, about 79% of all U.S. direct selling companies were NM companies, with retail sales of $16.08 billion (72% of total sales). Accordingly, about 81% of all U.S. direct selling people, almost 7.5 million individuals, were members of a NM organisation (DSA, 1998).

Network marketing companies include companies applying exclusively NM, as well as companies that have particular NM divisions. For example, Amway Corporation is the world's largest NM corporation, present in 60 countries with two million distributors worldwide (Herbig & Yelkur, 1997). Nu Skin has about 300 000 consultants spread over eight countries (Ettorre 1995; ref. Herbig & Yelkur 1997). A.L. Williams Corporation, the largest seller of individual life insurance since 1984 -just recently bought by the insurance giant Primerica (Herbig and Yelkur, 1997)- is a NM company, as well as Shaklee, Herbalife, Jeunique, GNLD and Quorum. On the other hand, Gillette, Colgate-Palmolive, Discovery Toys, MCI and Excel are examples of companies selling through network marketing parallel to other marketing channels (Herbig & Yelkur, 1997).

Prior research on network marketing practices

Empirical research concerning the NM phenomenon as such is very limited. So far academic discussion mainly includes a few descriptions of NM practices. Croft and Woodruffe (1996) argue that both the silence and the polarisation of opinions on the subject – or even hostility towards it – is due to the belief that NM organisations are essentially thinly-disguised pyramid-selling schemes.

The more or less grounded bad reputation attributable to moneymaking schemes (Appendix 2.), inaccurate conceptualisation and incomplete or distorted descriptions of practices have added to the controversial image of network marketing. This has likely impeded more focused academic consideration on the subject. Herbig and Yelkur (1997) examine the phenomenon in an interesting but quite cursory manner, maybe mixing some fiction originating from the industry handbooks with facts from the same source. Croft and Woodruffe (1996) assess network marketing against
six strategic criteria for channel management, in order to analyse its suitability as a channel of distribution in international markets. They conclude that although NM in terms of cost, capital, control and coverage has some advantages over conventional channels, these apparent strengths are frequently outweighed by particular shortcomings.

Coughlan and Grayson (1998) focus on the development and analysis of a dynamic decision model of the growth of a retail NM organisation. The descriptive and prescriptive insights in their article show how compensation and other model parameters affect distributor motivation, sales, and network growth and profitability.

A conclusion drawn from these scarce studies on NM practices is that there exist some unique and distinctive characteristics both in the structure of a NM organisation as well as the implementation of marketing functions in this context, which raise several managerial problems unlike in traditional sales organisations. Therefore, a quest for a thorough descriptive analysis of the NM business practices is justified.

Network Marketing Business Concepts

Network marketing business concept generally refers to a way of organising direct selling businesses (DSA, 1998). The term multilevel marketing is commonly used as a synonym for network marketing. This section focuses on the key characteristics of network marketing business concepts distinguishing them from traditional sales organisations.

Key characteristics of network marketing businesses

NM business concepts have some common features with franchising concepts. In addition to the products, distributors market the NM business concept, i.e. the opportunity to join the organisation. Each distributor joining the company has equal rights and obligations concerning their NM businesses defined in a distributor contract. Thus, distributors are independent (non-employed), but agree to follow the NM concept of the particular NM company they are joining in.

Network marketing organisation involves 1) a NM company developing a NM concept and providing the goods and services and 2) a distributor organisation consisting of independent sales people, distributors, selling the products direct to end customers and establishing and expanding the organisation. The distributor organisation also referred to as sales organisation - accomplishes marketing functions, which can be divided into direct selling and network marketing functions.

Direct selling is a method of marketing consumer goods and services directly to consumers where sales are achieved as the result of personal contact between a salesperson and the consumer. Products sold direct to end customers vary from home, family, and personal care products to wellness, leisure, and educational products and miscellaneous services. Direct selling is particularly suited to products that benefit from detailed explanation and/or demonstration, or which are being tried out by the customers - in other words, to products the value of which can be enhanced by the sales person presenting them (DSA 1988).
Direct selling techniques are decades if not centuries old. Distributors find their prospective customers among their acquaintances and sell the products directly to them. The person-to-person method is either where a catalogue is left with a customer and an order is collected later, or where a product is demonstrated in the home on an individual basis. Party plan selling is where an independent salesperson demonstrates products to a group of customers, usually in the home of one customer who has agreed to act as a hostess. In both cases customers normally pay for the products a week or so later when the salesperson has arranged for them to be delivered either to the customer or to the hostess of a sales party (DSA 1998).

A more functional definition of the term network marketing concerns the activities related to the creation of a distributor organisation, such as recruiting, motivating and training new distributors. In practice, the term sponsoring is used as a synonym for network marketing and the term sponsor refers to a distributor performing network marketing activities. In general, the members of a distributor organisation actualise and implement the NM concept provided by the NM company. More specifically, a heterogeneous group of independent individuals purchases the products, sells them onwards and introduces new members into the organisation. Table 1 summarises the key characteristics and activities of network marketing business concept.

<table>
<thead>
<tr>
<th>NM organisation</th>
<th>Marketing activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct selling</td>
<td></td>
</tr>
<tr>
<td>production or acquisition of the products</td>
<td>development of a NM concept</td>
</tr>
<tr>
<td>warehousing</td>
<td>defining the marketing and the compensation plan</td>
</tr>
<tr>
<td>packaging</td>
<td>and other company policies for distributors</td>
</tr>
<tr>
<td>quality control</td>
<td>- maintenance of an information,</td>
</tr>
<tr>
<td>shipping and delivery of the products</td>
<td>communication and support system for networking distributors</td>
</tr>
<tr>
<td>maintenance of information</td>
<td>distributor contract with each distributor joining the organisation,</td>
</tr>
<tr>
<td>communication and support system for sales people</td>
<td>detailing the rights and obligations of both parties</td>
</tr>
<tr>
<td>- payment of sales commissions</td>
<td></td>
</tr>
<tr>
<td>Network marketing</td>
<td></td>
</tr>
<tr>
<td>company</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parties interacting within NM organisation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales organisation</td>
<td></td>
</tr>
<tr>
<td>customer relationships</td>
<td>distributor relationships</td>
</tr>
<tr>
<td>product presentations</td>
<td>- company presentations to the prospected new distributors</td>
</tr>
<tr>
<td>- retail of the products</td>
<td>- organisation of the training programmes</td>
</tr>
<tr>
<td>- delivery of the products</td>
<td></td>
</tr>
</tbody>
</table>

Table 1.  
*Key characteristics of NM business concept*

Multilevel sales organisations

Network marketing sales organisations can be described through examining their structural aspects. Key structural issues within NM business concepts are the levels of distributor organisation, i.e. so called sponsorship lines (Herbig & Yelkur 1997) and the compensation plan including status hierarchies.

The term multilevel refers to so called sponsorship lines, which formulate the entire sales organisation. Sponsorship lines also form the basis for compensation plan as they indicate the distributors' position in the distributor organisation. The following example illustrates the creation of the distributor organisation.

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Distributor A introduces potential new distributors to the NM company. The company accepts these new distributors by signing a distributor contract with them. The new distributors then occupy a position in their sponsor’s organisation, each forming a new line in A’s downline, i.e. a set of sponsorship lines.

A’s personal recruits form the first level of his downline, the people they recruit the second level and so on. The number of persons in a distributor’s first level is typically unlimited. Thus, a distributor’s organisation can grow both horizontally (more personal recruits in the first level) and vertically (more levels in the organisation). Table 2 illustrates the multilevel structure of distributor A’s organisation within the entire NM organisation.

<table>
<thead>
<tr>
<th>Development of A’s organisation</th>
<th>Levels in A’s organisation</th>
<th>Sponsorship lines in A’s downline</th>
</tr>
</thead>
<tbody>
<tr>
<td>A joins the NM organisation</td>
<td>First Level</td>
<td>A</td>
</tr>
<tr>
<td>A recruits 3 new distributors</td>
<td>Second Level</td>
<td>• • •</td>
</tr>
<tr>
<td>These recruit 3 distributors</td>
<td>Third Level</td>
<td>• • • • • • • • • • • •</td>
</tr>
<tr>
<td>These recruit 3 distributors</td>
<td>Fourth Level</td>
<td>• • • • • • • • • • • • • • • ••</td>
</tr>
</tbody>
</table>

Table 2. Multilevel structure of a distributor organisation within NM organisation

The growing potential of the NM organisation is related to the idea of exponential growth of the distributor organisation. Following example highlights this idea:

If A recruits 3 distributors to his first level and they all recruit 3 more distributors who in turn recruit 3 distributors and they recruit 3 members, A ends up with an organisation of 120 members in it. Change the number 3 to 5 and A’s organisation has 780 members in it.

In practice, of course, the growth of distributor organisation is much more complex as the distributors’ behaviour is not expected to and does not follow any theoretical models.

Compensation plans

Network marketing contracts generally allow independent distributors to recruit other sales representatives and earn commissions from the sales of those recruits in addition to their personal sales. Hence, distributor A’s commissions are based on his personal sales and the sales of the distributors in his downline. Controversially to the common misinterpretations of NM business practices, commissions and bonuses are always based on the actualised sales – not on the amount of new recruits as such.

NM company’s compensation plan defines the levels of which bonuses can be derived under certain conditions related to distributor’s sales activities, number of active distributors in his downline etc. NM companies cannot demand any specific selling or network marketing activities from distributors, but instead they usually strictly define...
The activity levels distributors have to achieve in order to get commissions. The following example illustrates the logic underlying a simple NM compensation plan.

The NM company pays monthly commissions to A under the following conditions:

1) A’s own retail sales/month are at least FIM 500.
2) A has at least three active distributors (selling at least FIM 500 each month) in his downline.
3) The NM company pays 25% sales bonuses of A’s own retail sales.
4) Commissions are paid from four levels of A’s organisation.
5) Commissions are 5% of the distributors’ net sales (group volume) per one level.

The average distributor’s sales per month in this particular company are assumed to be FIM 500. In practice, again, the degree of distributor activities in terms of periodic sales may vary remarkably. Table 3. presents a simplified example of a NM compensation plan.

<table>
<thead>
<tr>
<th>The amount of distributors in A’s organisation</th>
<th>The group volume at each level</th>
<th>Sales bonuses and commissions paid to A</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>FIM 500</td>
<td>25% of 500 = 125</td>
</tr>
<tr>
<td>First level: 3 distributors</td>
<td>3x FIM 500 = 1 500</td>
<td>5% of 1500 = 75</td>
</tr>
<tr>
<td>Second level: 9 distributors</td>
<td>9x FIM 500 = 4 500</td>
<td>5% of 4500 = 225</td>
</tr>
<tr>
<td>Third level: 27 distributors</td>
<td>27x FIM 500 = 13 500</td>
<td>5% of 13 500 = 675</td>
</tr>
<tr>
<td>Fourth level: 81 distributors</td>
<td>81x FIM 500 = 40 500</td>
<td>5% of 40 500 = 2 025</td>
</tr>
<tr>
<td>A’s organisation: 120 distributors</td>
<td>Total turnover = 60 500</td>
<td>A’s commission = 3 125</td>
</tr>
</tbody>
</table>

Table 3.
A simplified example of a NM compensation plan

Although A’s payline – the levels of which he receives bonuses – ends at the fourth level, his organisation may grow more and more levels down. The important feature of the compensation plan is that a distributor in A’s first level also receives 25% commissions of his personal sales and the 5% bonuses of the four levels of his downline. Thus, the opportunity for financial gains is equal to each distributor independent on the position he enters in a sponsorship line.

The above example illustrates the key distinguishing features of traditional direct selling and NM concepts well. In a typical direct selling organisation A would sell the products and his commissions would be based on his personal sales. In order to achieve FIM 3125 sales bonuses in a direct selling organisation paying 25% out of personal sales, A should sell products worth FIM 12 500. In a NM organisation, on the other hand, A creates a distributor organisation and for that the NM company pays him commissions based on the total turnover of his organisation. Based on FIM 500 personal sales volume and group sales volume of FIM 60 000, A receives FIM 3 125 commissions.

In practice NM compensation plans are extremely complex. The challenge for NM companies is that the plans should simultaneously compensate both the efforts of a housewife selling cosmetics worth FIM 500 per month and a networking distributor sponsoring an international downline with thousands of distributors selling the products worth FIM 2 million. Therefore compensation programmes within a NM organisation are constantly developed in order to satisfy the heterogeneous group of distributors.

One of the typical features of NM compensation plans is the presence of a formal status hierarchy consisting of various recognition levels, honorific titles and perks. For example, Amway has countless status levels each with its own title and unique perks (Herbig & Yelkur 1997).

Distributors reach these levels after performing certain selling and/or sponsoring activities defined in a compensation plan. A distributor qualifying to a certain level typically benefits by receiving better bonuses and commissions.

However, Herbig and Yelkur (1997) note that the recognition levels are not authority levels. The nature of NM is that authority for all practical purposes does not exist. Distributors work independently and voluntarily (DSA, 1998). Consequently, NM companies aim at developing financial (e.g. compensation plan) and other incentives (e.g. status hierarchies) to motivate their distributors.

Governance Structure Of Network Marketing Organisations

This section discusses the governance structure underlying NM organisations by employing Powell’s (1990) comparison of different organisation forms.

Comparison of hierarchical governance structure and networks

Powell (1990) contrasts networks with market and hierarchical governance structures and highlights some distinctive features of networks. He argues that the familiar market-hierarchy continuum does not do justice to the notion of network forms of organisation.

Using Powell’s comparison as a framework for analysing NM practices brings out features typical for both hierarchies and networks depending on the point of view. Table 4 illustrates the salient features of the modes of hierarchy and network.

<table>
<thead>
<tr>
<th>Key features</th>
<th>Forms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hierarchy</td>
</tr>
<tr>
<td>Normative basis</td>
<td>employment relationship</td>
</tr>
<tr>
<td>Means of communication</td>
<td>routines</td>
</tr>
<tr>
<td>Methods of conflict resolution</td>
<td>administrative</td>
</tr>
<tr>
<td>Degree of Flexibility</td>
<td>low</td>
</tr>
<tr>
<td>Amount of commitment among the parties</td>
<td>medium to high</td>
</tr>
<tr>
<td>Tone or climate</td>
<td>formal, bureaucratic</td>
</tr>
<tr>
<td>Actor Preferences</td>
<td>dependent</td>
</tr>
</tbody>
</table>

Table 4.
A comparison of forms of economic organisation
Source: adapted from Powell (1990)

Hierarchic characteristics of network marketing organisations

From a NM company’s point of view a NM organisation can be viewed as a marketing channel for NM company’s products. The relationship between the NM company and an individual distributor is based on a formal contract, which details the routines especially related to the retail of the products. The company can control the actions of its distributors up to a certain point and vice versa. Conflicts between the company and...
its distributors are typically solved easily: each party is entitled to act according to the contract and the penalties for breaking the rules are defined beforehand. In this sense the degree of flexibility is low.

The amount of commitment among the parties seems to vary depending on the role of the distributor in the organisation. If the distributor is relatively passive, marketing the products part-time or very seldom and not recruiting new members to the organisation, the commitment of both parties is logically very low. Actors are dependent on each other (to the degree they are committed to the relationship).

**Network characteristics of network marketing organisations**

Viewing NM organisations from a focal distributor's perspective reveals a much more complex set of relationships and features of the organisation. Within a NM organisation the establishment, development and maintenance of long term co-operative relationships is one of the key characteristics of successful NM practices. Active distributors establishing and maintaining their own distributor organisation work in the environment, which has several characteristics typical for networks.

First of all, distributors introduce new potential distributors to the NM company, but the formal agreement is drawn between the new distributor and the company. Thus, the relationship between distributors is not based on any written contracts. A new distributor takes a position in his sponsor's organisation according to the compensation- and marketing plan detailed in a distributor contract. However, no obligations relate to that position as such, nor has the sponsor any authority over the new distributor. Any co-operation is based on voluntary actions. In an ideal sponsor-distributor-relationship a sponsor is viewed as a mentor, socialising, motivating and training new distributors. The NM company supports this by paying the commissions based on their sales to the sponsor.

The relationship and the actions between distributors within a same sponsorship line are related to a hierarchical compensation plan, and the co-operation might be explained through financial ties to a certain extent. Yet, observations from the business practices indicate that distributors who have created relatively large organisations actively form co-operative relationships with distributors not directly belonging to their payline, or their downline.

Distributors organise training sessions, company presentations and meetings together, co-operate and communicate with each other around the issues related to the overall position and goals of the entire NM organisation. The relationships within a distributor organisation therefore seem to have a normative basis in complementary strengths of different actors (see Table 5.).

Means of communication are clearly relational. As for conflict resolution reputational concerns are extremely important. In a real-life conflict situation the punishments seem to relate to keeping important information from the distributor to be punished etc. Flexibility of these relationships is medium and the commitment is certainly medium if not high.

The climate within a distributor organisation tends to be open-ended and very much aware of mutual benefits related to different actions and relationships. The actors seem
to be interdependent on each other distributors on other distributors as well as the NM company on distributor-organisation etc.

Powell’s (1990) conception of networks seems suitable for the purposes of the present study. He is close to McLell’s (1985, ref. Powell 1990) ideas about relational contracts: the view in which “entangling strings” of reputation, friendship, interdependence and altruism become an integral part of the relationship. Also, Powell (1990) argues that networks are particularly apt for circumstances in which there is a need for efficient, reliable information.

The most useful information is rarely that which flows down the formal chain of command in an organisation, or which can be inferred from shifting price signals. Rather, it is the information that is obtained from someone whom you have dealt with in the past and found to be reliable (Powell 1990). NM business concepts are based on the assumption on the power of distributors honestly and spontaneously recommending products and business ideas to the actors in their social networks.

As a conclusion, this paper views NM organisations as hierarchically structured to a certain extent and for particular purposes. Organisations include hierarchic characteristics incorporated in compensation plans and status hierarchies, although no explicit authority is related to them.

Still, in Powell’s words, networks occur “in circumstances under which co-operation and collaboration proceed with only limited reliance on contracts and the legal system on the one hand, and on administrative fiat and bureaucratic routines on the other.” Following that, the paper assumes that within and beyond formal hierarchies of the NM organisation, a focal actor establishes, develops and maintains networks of co-operative relationships based on mutual benefits and open communication.

**Network Marketing Business Opportunity**

Network marketing businesses differ from traditional direct selling businesses in their effort to combine direct selling activities of thousands of individuals with recent developments in information and communication technologies in a novel way. Advanced NM companies provide their independent sales people with various direct marketing tools in order for them to create a profitable customer and distributor base for the entire organisation. This section discusses business opportunities incorporated in network marketing business concepts.

**Network marketing opportunity structure**

Following the above sections, the environment in which distributors operate is viewed as a set of embedded social and business relationships. Networking distributors prospect for potential customers and distributors among their social networks, i.e. establish new relationships as well as co-operate with other distributors, i.e. develop and maintain long-term relationships.

In other words, NM companies expect their distributors to create and maintain the customer and distributor relationships vital for the entire organisation. Hence, NM practitioners face challenges concerning the development and management of...
distributor networks consisting of relationships with thousands of individuals implementing the NM concept of the company.

Bassett and Carr (1996) argue that role analysis may offer a significant opportunity for redirection and enrichment of organisation theory. Approaching the organisation as a collection of individual work roles interacting with one another and the environment offers a fresh level of structural analysis on which to move organisation theory forward.

Also, several marketing scholars have suggested that role theory is highly applicable in research on interaction between actors in business environments whether these parties be individuals or companies and whether interaction occurs within short-term encounters or long-term relationships (Anderson et al. 1998, Havila 1996, Solomon et al. 1985).

The present study views the NM business concept as an opportunity structure for individuals joining the organisation. The formal aspects of the structure are formulated by the NM company’s normative expectations concerning various roles of the distributors. These expectations are expressed in the distributor contract and other company material defining the NM company’s policy and terms concerning the products, services, compensation-, communication-, training- and support system available for the distributors as well as the overall rules for direct selling and network marketing functions of the organisation.

Within the opportunity structure, distributors occupy a certain position, which locates the actor in the relationship system relative to other actors (Nadel 1957 and Parsons 1951, ref. Anderson & al. 1998). The position in a NM context refers to the distributor’s position in the organisation in relation to other distributors (in sponsorship line and status hierarchy).

Consequently, the variety of opportunities incorporated in NM business concepts is likely to lead into a heterogeneous group of individuals occupying these positions; individuals with significant differences concerning their personal characteristics as well as the marketing activities they accomplish.

**Distributor role categories**

Hence, network marketing business concepts typically allow individuals to operate as distributors in several manners. Distributors can be broadly classified into three categories:

1) distributors operating mainly as members of a buying club
2) distributors operating mainly as direct sales people
3) distributors operating mainly as network marketers

NM companies explicitly promote all of these activities by incorporating several forms of compensation (discounts, personal sales commissions, bonuses based on a group sales volume, recognition, titles, memberships in top distributor clubs etc.) in their compensation plan. Compensation plans also detail the requirements or obligations related to compensation. Table 5 presents a general classification of distributors based on the accomplished marketing activities and the obligations and benefits related to those activities.

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It is important to notice that this categorisation only specifies the accomplished marketing actions or effort of individuals in each category at a certain point of time. However, individuals in distributor organisation tend to and aim at transforming from one category into another in accordance with their goals and ability to achieve these goals. The time dimension is therefore essential in evaluation of the growth and success potential of the organisation.

In order to develop company policies that motivate different kinds of sales people, it is important to investigate differences in relevant individual characteristics. Only through such understanding can effective policies be formulated for motivating, controlling, and evaluating the sales force. Among these differences are different perspectives on work behaviour and attitudes i.e. the meaning of work to members of the sales force. (Brown and Peterson 1994).

<table>
<thead>
<tr>
<th>Buying club – distributors</th>
<th>Direct selling distributors</th>
<th>Networking distributors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing functions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- purchasing and using of the products</td>
<td>- establishing, developing and maintaining customer relationships</td>
<td>sponsoring activities: establishing, developing and maintaining distributor relationships</td>
</tr>
<tr>
<td>- word-of-mouth product advocacy</td>
<td>presenting the products</td>
<td>company presentations to the</td>
</tr>
<tr>
<td></td>
<td>selling the products</td>
<td>prospected new distributors</td>
</tr>
<tr>
<td></td>
<td>delivering the products</td>
<td>organisation of the motivation and training programmes</td>
</tr>
<tr>
<td><strong>Obligations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- signing of the distributor contract</td>
<td>obligation to introduce the products and information on them to customers</td>
<td>- obligation to introduce the company policies and practices to new distributors</td>
</tr>
<tr>
<td>- purchase of a “starter kit”</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- discount on purchases</td>
<td>- sales commissions based on personal sales</td>
<td>- bonuses based own group sales</td>
</tr>
<tr>
<td>- access to distributor programmes and status hierarchy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5.
Distributor categories based on the accomplished marketing activities and related benefits and obligations

Cherrington (1980, ref. Brown & Peterson 1994) described two fundamental perspectives on the psychological value of work: (1) work as an instrumental value and (2) work as a terminal value. The instrumental value perspective views work primarily as a means to an end. Terminal value perspective views work as a positive activity in and of itself.

Highly instrumental sales-people are likely to maintain a focus on the details of task performance, recognise the relationship between effort and sales performance, and engage and persevere in activities instrumental to successful performance. For example, instrumentality has been positively related to entrepreneurial business attainment (Spence & Helmreich 1983, ref. Brown & Peterson 1994). On the other hand, those low in instrumentality have less task focus and tend to be less independent, assertive and self-determining (Brown & Peterson 1994).

_in McLoughlin, Damien. and C. Horan (eds.). Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999_
Observations among practitioners indicate that there may be significant differences between NM distributors concerning their attitude, or more broadly, orientation towards their position in the sales organisation. This paper suggests that a division of distributors into business oriented distributors and socially oriented distributors forms two illustrative although broad role categories, which may require distinctive managerial solutions concerning motivation, compensation and training systems. Furthermore, it is suggested that business oriented distributors view their work more instrumentally than socially oriented distributors. Table 6. presents a role categorisation of the distributors based on the differences in their work orientation and the marketing function they accomplish.

Differences in orientation and accomplished marketing actions raise important issues concerning the effective management of the NM sales organisation as well as for the networking distributors attempting to establish, develop and maintain this organisation.

For example, business oriented, goal minded individuals aiming at creating a profitable business and acting accordingly (sponsoring etc.) 1) have different kinds of role expectations and perceptions concerning other actors within the organisation and, consequently 2) require different kinds of co-operation, motivation and compensation, than do socially oriented distributors primarily enjoying NM social activities (home parties etc.) and earning some extra money as a by-product of these activities.

<table>
<thead>
<tr>
<th>Orientation of the distributors</th>
<th>NM opportunity structure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Buying club distributors</td>
</tr>
<tr>
<td>Business orientation</td>
<td>1. marketing activities</td>
</tr>
<tr>
<td>(work as an instrumental value)</td>
<td>2. benefits and obligations available</td>
</tr>
<tr>
<td></td>
<td>3. attitude towards distributorship</td>
</tr>
<tr>
<td>Social orientation</td>
<td></td>
</tr>
<tr>
<td>(work as a terminal value)</td>
<td></td>
</tr>
</tbody>
</table>

Table 6. Distributor role categories within NM organisation

Personality characteristics (e.g. instrumentality) as well as role perceptions (e.g., role ambiguity, role conflict) may have antecedent effects on salesperson effort. The effort (force, energy, or activity) by which distributors' marketing activities are accomplished, in turn affects both satisfaction and performance of a distributor - which in general can be viewed as determinants of effectiveness - are affected by the perceived role congruence in addition to other individual characteristics (see. Brown & Peterson 1994).

In order to understand the development and management of an effective NM organisation, it appears extremely important to understand the role structure underlying the NM sales organisation.

Discussion

There are several distinctive characteristics in the network marketing business context related to the organisational structure and marketing functions of the sales organisation. This paper suggests that these characteristics require novel tools from marketing management in order to develop and manage the sales organisation consisting of heterogeneous group of individuals effectively. Furthermore, the paper suggests that the development of these tools can be derived from modified theoretical models of organisational effectiveness based on prior knowledge of sales management, organisational behaviour and organisational roles of the individuals.

*Role analysis based on the role categorisation presented in this paper provides a basis for understanding not only the structure but also dynamics of NM sales organisations.*

First of all, NM business dynamics relate to distributors changing or extending their roles e.g. from member of a buying club to direct selling distributor and into the networking distributor. This role switching results from accomplished marketing activities and, in turn, results in a change in the NM organisation.

When a distributor recruits his first new distributor, he extends his role and accesses a position of a networking distributor. Consequently, a new triadic relationship (a sponsor/new distributor/NM company) is established and the NM organisation has grown in terms of the amount of distributors. Or, as a member of a buying club sells some products, he has accomplished “direct salesperson’s” activities and caused a change in the organisation in financial terms.

The above changes in roles can be seen as processes consisting of several activities. All distributors start from scratch and have a chance -within the opportunity structure- to progress into networking distributors. This development is a process of a continuing series of direct selling and network marketing (sponsoring) activities, which in turn have an effect on the entire NM organisation. In order to succeed in their businesses, networking distributors have to understand and manage these changes in their distributor organisation.

The second important issue, which can be examined from the role theory perspective, concerns co-operation and competition between distributors. On the surface, distributors within the same distributor organisation compete with each other from customers as well as new distributors. However, due to the connectedness of the relationships within the entire NM organisation, success in competition against other distributors might erode the winning party’s gains in the end.

An implicit conclusion is that the business success of the entire NM organisation is a sum (or more) of the success of individual distributors. The overall success in turn influences the individual distributor’s opportunities to succeed in the future as well (success here comprising financial etc. goals of the practitioners set and achieved).

It can be postulated that a balance between competition and co-operation between distributors is one of the prerequisites of an effectively functioning NM sales organisation. Following that, it is assumed that networking distributors tend to create co-operative relationships with other distributors in order to promote the achievement of their goals, other distributors’ goals as well as the entire NM organisation’s goals.

*in McLaughlin, Damien and C. Horan (eds.), Proceedings of the 15th Annual IMP Conference, University College, Dublin 1999*
The degree of co-operation with other distributors within a distributor organisation is related to the distributor’s role within a MLM organisation. Co-operation with other distributors is a prerequisite for the overall business success of networking distributor but not so important to the distributor mainly purchasing the products for himself. This paper suggests that distributors may develop better opportunities for their businesses through appropriate co-operation with other distributors, based on the knowledge about various distributor roles.

References


DSA, Direct Selling Associations (1998), http www.dsa.org.uk


in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999
Pros and Cons of Multilevel Marketing

The data collected during the first phase of the research indicates that there exists not only confusion but also strong controversial opinions and emotions related to the NM phenomenon among practitioners, media and the audience. Although an extensive analysis of the data collected during the exploratory research has not yet been finished, various topics related to the phenomenon can roughly be divided as follows (Figure 1.) The vertical arrows illustrate the kind of tone of the expressed opinions. On one extreme there are enthusiastic and positive opinions and discussions and on the other extreme there are critical and negative opinions. The point in the middle here represents a neutral, objective tone. As kind of extreme opinions related to key features in NM practices have been searched, these positive/negative aspects are connected to enthusiasm and criticism.

The horizontal arrows illustrate the focus of the discussion or the topic. On both extremes are one of the key characteristics of NM organisation and its marketing functions (see Table 1.); direct selling function and network marketing function. For the purposes of this paper, only some of the most extreme topics are presented here in order to highlight the controversial discussion about the phenomenon.

**Enthusiasm**
+ value added by personal service and advice
+ trust in personally known sales person
+ convenience of buying at home

**Direct Selling**
- creating artificial markets based on a social relationship between an eager salesperson and reluctant buyer

**Network Marketing**
- ruining social relationships by turning them into business relationships
- pyramid schemes where the first ones exploit the last ones

**Criticism**
+ business opportunity for everyone
+ low-cost people’s franchising-business
+ opportunity for self-employment
+ distribution revolution: cost savings due to effective communication & segmentation

**Figure 1.**
Controversial topics and opinions related to the NM phenomenon

__Appendix 1.__

*[Prima Publishing.*]


Appendix 2.

Key features distinguishing NM businesses from moneymaking schemes

<table>
<thead>
<tr>
<th></th>
<th>Network marketing</th>
<th>Moneymaking schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical applications</td>
<td>A company contracting distributors in order to sell its products direct to end customers and to develop a multilevel distributor organisation.</td>
<td>A system applying multilevel recruiting schemes in order to collect money.</td>
</tr>
<tr>
<td>Examples of organisations</td>
<td>Amway, A.L. Williams, Herbalife, Discovery Toys, Shaklee, Quorum.</td>
<td>The Ponzi Scheme, and illegal chain letters involving money.</td>
</tr>
<tr>
<td>Products and services</td>
<td>Consumer goods like home, family, and personal care products, wellness, leisure, and educational products as well as miscellaneous services.</td>
<td>A membership or a marketing plan of the system in a form of a diploma, investment certificate etc.</td>
</tr>
<tr>
<td>Income source of company</td>
<td>Sales of products and services sold to distributors (in order to be retailed to end customers).</td>
<td>Membership fees and investments of new members investing in the system in order to become members</td>
</tr>
<tr>
<td>Income source of distributor</td>
<td>Personal product sales and the sales of the distributor's own distributor organisation.</td>
<td>Recruitment of new members, sales of promotional material.</td>
</tr>
<tr>
<td>Buy back-policy</td>
<td>Company guarantees to repurchase a reasonable percentage of unsold inventory or unused sales aid materials for a reasonable time after purchase from a terminating distributor.</td>
<td>No buy back-policy.</td>
</tr>
<tr>
<td>Investment, purchase and inventory requirements</td>
<td>No investment or purchase requirements other than specific starter kit at a company cost consisting of essential aid for selling and networking and a minimum purchase per certain period of time in order to receive bonuses.</td>
<td>Membership as such often requires financial investment.</td>
</tr>
</tbody>
</table>