
Network Marketing The Concept, The Challenges and The Success Mantras

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Abstract

Network Marketing, called the wave of the future is one of the most touchy and the most misunderstood concepts today. The naïve and insincere players have caused this system to be looked at with a suspicious eye. The concept involves common men and women and their success as Leaders. There are number of challenges for a common man to make it big in this concept but the success of many from diverse backgrounds suggests that anyone can be successful in Network Marketing if the person has a dream and he/she understands and follows the success mantra's.

Key Words

Downlines, Sponsoring, Customer-distributor, Network, Free enterprise System., Levels, Pyramids.

The Concept

**" The richest people in the world look for and build networks, everyone else looks for work."-
Robert T. Kiyosaki.**

The movement away from traditional distribution systems was foretold several years back by futurists such as John Naisbitt and Alvin Toffler. Network Distribution considered to be the wave of the future is one of the fastest growing yet the most misunderstood method of moving products today. Though often confused with door to door selling and illegal pyramids schemes, Network Marketing is something different. It is a unique concept in which a manufacturer of consumable, affordable and unique featured products does not distribute them through the traditional distribution system comprising of a few wholesalers, jobbers and retailers and does not advertise them in the media but provides an opportunity for common men and women irrespective

of their financial portfolios , educational backgrounds and occupations to become distributors of his products while consuming them at the same time. In this system, an individual gets the distribution rights and becomes an Independent Business Owner (IBO) by paying a very nominal franchise fee and a declaration to abide by the code of conduct laid for the distributors by the manufacturer. An IBO need not put in heavy investments in inventory and open shops or offices as middle men in the traditional distribution system do, but can create huge turnover by working from his home and that too in his flexible, free time without disturbing

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his present career or business. An IBO receive the products at wholesale prices from the manufacturer and creates turnover in three ways:

1. Consuming the products offered by the manufacturer according to his needs (thus saving the retail margin that would have gone to the retailer had he bought them from the traditional distribution system)
2. Selling the products to people who need them (usually people one knows as friends, relatives, coworkers and neighbors etc.) by sharing knowledge about unique benefits of the products by word of mouth.
3. Creating an organization or **network** by recruiting more IBOs who create a turnover for themselves in the same manner.

The system works on the concept of large number of families changing their buying habits and selling / sharing a little but together creating huge sales volume and getting paid not only for their little consumption and sales but the wholesale margins that come from huge turnover in their network.

There are more than 500 companies worldwide that distribute their products and services through Network distribution .Some of them are:

Amway, Ameriplan, Arbonne International, Avon Products Inc.,Big Planet, DXN, Equinox , Excel Communications, Forever Living Products, Herbalife, Mary Kay, Oriflame, Omega trends, Quixtar, The Pampered Chef,Tupperware Brands Corp, Vector Marketing, Xango etc.

Today , practically everything is being marketed through this system.

The products range from Dietary supplements, Skin care, Educational Toys, Water purifiers, Cellphones, Clothes, Consumable Home care products , Laundry care products, Personal care products , Cosmetics, Insurance , Internet services etc.

The concept came to India in late 90's with many multinationals following this system and many Indian companies like HLL too switching on to it as a parallel channel along with its traditional distribution channel.

Advantages of Network Distribution to the manufacturer

1. The manufacturer gets loyal customers because the customer-distributor understands that while consuming he has an opportunity to distribute as well at nominal start up costs and running expenses and earn money in the form of distributor margins .
2. The manufacturer avoids the advertisement spend on media which may not turn out to be as effective as word-of-mouth especially in today's world of media clutter.

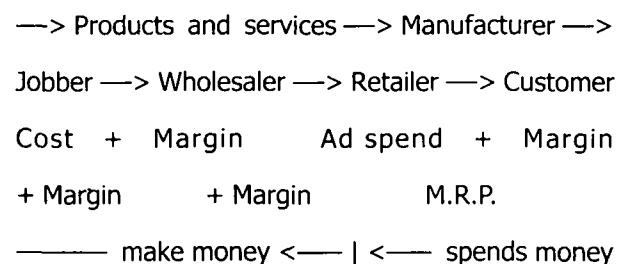
Advantages to a common man

The business is designed for the masses. Amway has about 4 million distributors through out the world. The reason why such large number pursues it can be seen from the following features of the business:

- Low start up cost
- Flexibility of working it in one's own free time at any place anywhere in the world.
- Is operated from home
- Principle of duplication which allows one to develop leaders downline thereby building a pipeline of ongoing residual income.
- No restrictions regard education, age (anyone above eighteen years can do it), gender or financial portfolio.
- Free enterprise system where one can apply his own creativity and ingenuity and doesn't have a boss.

The Traditional distribution system vs. Network Marketing.

A traditional distribution system works as follows:



The products move from the manufacturer to the jobber who advertises them in the media and pass them to wholesalers making his margins, the wholesalers pass them to retailers, making their margins and retailers finally offer them to customers making their retail margin. From one end, the products move and from the other i.e. the customer -the money.

All the expenses made by the manufacturer and the distributors and their margins lie in the selling price of the product and are paid for by the consumer when he buys these products. On an average, the advertisement spend and total middlemen margins turn out to be 70% of the MRP (Maximum sale price). Thus, if a consumer spends Rs.10 on a product, Rs.7 go to the middlemen and the media.

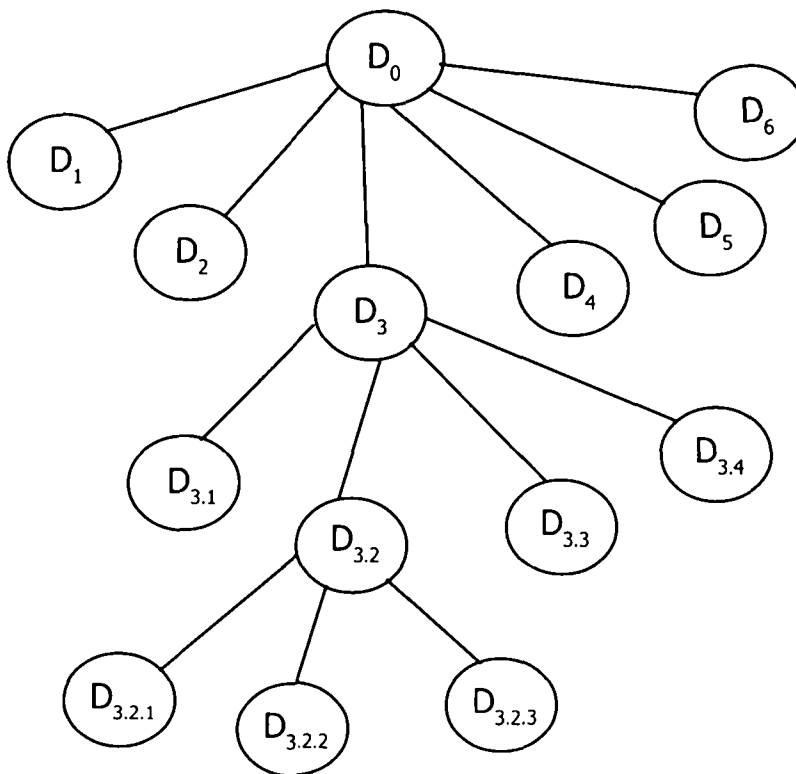
Working of a Network Distribution

A company or a conglomerate of companies following network distribution offer(s) its/their products/ services at wholesale prices to its/their customer who can choose to become distributors as well and benefit by:

- Making retail margins by offering them to general public (i.e. non distributors) at printed MRP
- Making wholesale and jobber margins, turning out huge sales volumes as wholesalers do through their Network of customer-distributors.

It works as shown in the Diagram 1.

Diagram - I



Where D_0, D_1, D_2, D_3, D_4 etc. are independent IBO's

Explanation to the diagram

Any individual D_0 , regardless of his educational background, financial portfolio, gender, region, but with age more than 18-yrs, gets linked to the manufacturer by paying a nominal franchisee fee and becomes a networking distributor. He/She then stops buying the products of other manufacturers from the retail shops i.e. the traditional distribution system and creates a turnover by :

1. Buying from the Networking manufacturer's stores physically or through e-order for self consumption..
2. Buying from the same for retail sales.
3. Introducing more distributors (to the manufacturer) like $D_1, D_2, \dots, D_5, D_6$ who also follow steps 1,2 and 3 i.e. buying goods for self consumption and making retail sales and introducing more distributors.

The network thus multiplies. There is no limit to the distributors one can introduce/sponsor. *Each distributor is an independent business owner and the system works on an unlimited franchise concept in which a distributor has a right to pass on the distributorship to as many people he wants, any time, anywhere in the world. (Amway has more than 4-million distributors worldwide and 4.5 lakh distributors in India) . The system results in everyone consuming and distributing a little but together creating a huge turnover. The distributors get paid not only on their personal consumption and sales but also on the sales and consumption of the distributors in their Network or group.*

The distributor compensation plans vary from one corporation to another. The most basic plan and the compensation structure may be studied by an example using diagram-1

Assumptions:

Assumption-1: The wholesale margins are calculated on the individual and group turnover as per the following assumed scale.

Total sales turnover, individual and group in a month (in Rs.)	Total commission percentage distributed amongst the distributors
5,000	3
25,000	6
50,000	9
1,00,000	12
2,00,000	15
3,50,000	18
5,00,000	21

Assumption-2:

a) **Stage -1** – A distributor D_0 has just linked up and has not sponsored anyone.

b) **Stage-2-** The distributor D_0 introduces 6 new distributors $D_1, D_2, D_3, D_4, D_5, D_6$ creating level-1 in his Network.(In a true Network Marketing company any individual can sponsor any number of distributors directly –The 6 mentioned are just an assumption.)

c) **Stage-3** -The new 6 further sponsor 4 each like D_3 introducing D_{31}, D_{32}, D_{33} , and D_{34} . adding $6 \times 4 = 24$ new distributors to D_0 's team, thus creating level-2 in D_0 's network, making the number of distributors in D_0 's team = 30.

d) **Stage-4-** Each of the new four distributors, further introduce 3 new distributors like D_{32} sponsoring D_{321}, D_{322} and D_{323} over a period adding $24 \times 3 = 72$ new distributors thus creating level-3 in D_0 's team, taking the D_0 's team total to 103 (72+31) distributors.

Assumption-3:

Each distributor buys products and services of Rs.5,000 every month for self consumption and sale to non distributors.

With these assumptions the turnover and respective wholesale margins are calculated as per the Table-2:

Table - 2

Sr.No.	Particulars	Stage-1	Stage-2	Stage-3	Stage-4
A	Number of distributions in the Network of each level-3 distributor including himself	Level-3 Non-existent	Level-3 Non-existent	Level-3 Non-existent	1
B	Turnover of each level-3 distributors' network (in Rs.)	Nil	Nil	Nil	5,000
C	% level for each level-3 distributors	Nil	Nil	Nil	3
D=B*C /100	Total compensation for each level-3 distributor (in Rs.)	Nil	Nil	Nil	150
E	No. of such level-3 distributors in level-2 distributors' Network	Level-2 Non-existent	Level-2 Non-existent	Nil	3
F=E*D	Total downline compensation for each level-2 distributor (in Rs.)	Nil	Nil	Nil	450
G=E+1	No. of distributors in each level-2 distributors' Network included himself	Nil	Nil	1	3+1=4
H=G* 5000	Turnover in the Network of each level-2 distributor (in Rs.)	Nil	Nil	5,000	20,000
I	% level for each level-2 distributors network	Nil	Nil	3	6

Sr.No.	Particulars	Stage-1	Stage-2	Stage-3	Stage-4
J=I*H/ 100	Total compensation generated for each level-2 distributors' network (in Rs.)	Nil	Nil	150	1200
K=J-F	Compensation for each level-2 distributor (in Rs.)	Nil	Nil	150	750
L	No. of level-2 distributors in each level-1 distributors' network	Nil	Nil	4	4
M	No. of level-3 distributors in each level-1 distributors' Network	Level-1 Non-existent	Nil	N.A.	12
N=L*K +M*D	Total downline compensation for each level-1 distributors (in Rs.)	Nil	Nil	600	4800
O=L+ M+1	No. of distributors in each level-1 distributors' Network including himself	Nil	1	4+1=5	4+12+1=17
P=O* 5000	Turnover generated in each level-1 distributors' network (in Rs.)	Nil	5,000	25,000	85,000
Q	% level	Nil	3	6	9
R=P*Q	Total compensation for each level-1 distributors' Network (in Rs.)	Nil	150	1,500	7650
S=R-N	Compensation for each level-1 distributor himself (in Rs.)	Nil	150	900	2850
T	No. of distributors in D ₀ 's Network including himself	1	6+1=7	1+6+24=31	6(level-1) +24(level-2) + 72(level-3) + himself=103
U=T* 5000	Turnover of D ₀ 's Network (in Rs.)	5,000	35,000	1,55,000	5,15,000
V	% level for D ₀ 's Network	3	6	12	21

Sr.No.	Particulars	Stage-1	Stage-2	Stage-3	Stage-4
W=U*V	Total compensation generated for D ₀ 's network (in Rs.)	150	2100	18,600	1,08,150
#X=nd1 *S+nd2* K+nd3* D	Compensation for D ₀ 's downlines (in Rs.)	Nil	900	9000	45900
Y=W-X	Compensation for D ₀ 's=total compensation generated less downline compensations (in Rs.)	150	1200	9,600	62,250

- # nd1 : no. of distributors at level-1=6
 -nd2 : no. of distributors at level-2=24
 -nd3 : no. of distributors at level-3=72

Besides the wholesale margins of 21% , there are additional compensations in the form of :

1. Retail Margins of 20% and
2. Leadership bonuses and royalties – Once a downline distributor reaches a certain level the upline distributor gets royalties, which are 3-5% of the turnover of the downline distributors' Network, thereby making the total compensations as 60-70% of MRP, same as for the middlemen in the Traditional distribution system.

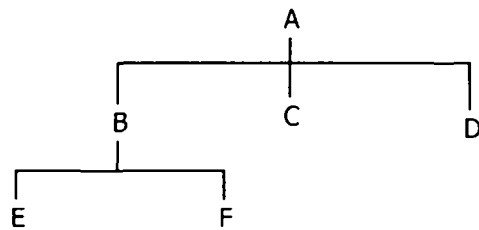
For example:The worldwide sales of Amway Corp. through Network distribution was about US \$ 6.4 billion in 2004-05 out of which 70% i.e.US \$ 4.48 bn.went to the customer-distributors.In the Indian Market the sales of the same corporation in 2004-05 was about Rs.636 crores out of which about 70% i.e Rs 445-crore went to the customer- distributors as distributor margins

Interactive distribution is not a chain or a pyramid which are built top- down. In chains and pyramids, only those who get involved in the beginning can reach the top in terms of profits; others down the line earn lesser than the people on the top However in a true network marketing or interactive distri-

bution each new distributor starts at zero but has an equal opportunity of building his organization/ network to even larger number than his own sponsor and can thus earn more than his own sponsor.

Example:

A distributor say A sponsors three distributors say B ,C and D
 B sponsors two distributors E and F.
 C , D ,E and F presently have not sponsored any one and do not have their individual Networks



Suppose,
 The sales turnover made by various distributors individually by self consumption and retail sales is as follows:

E= Rs.70,000 ; F = Rs.80,000; C= Rs.10,000; D= Rs. 20,000
 B=Rs.10,000 ; A=Rs.10,000

The compensation of various distributors as per assumptions given in Table-1 shall be calculated as per Table-3

Table - 3

The distributor	Network turnover of distributor including self (in Rs.)	% level	Total compensation for the Network (Rs.)	Downline compensation (Rs.)	Compensation for the distributor
(1)	(2)	(3)	(4)=2*3	(5)	(6)=4-5
E	70,000	9	6,300	Downline Non-existent	6,300
F	80,000	9	7,200	-do-	7,200
B	1,60,000	12	19,200	6,300+7,200 = 13,500	5,700
C	10,000	3	300	Downline Non-existent	300
D	20,000	6	1,200	-do-	1,200
A	2,00,000	12	24,000	6,300+7200+ +5700 +300+1200 =20,700	3,300

Thus B gets paid more than what A does as the Network of B is turning out sales at the same level as A i.e 12%. Thus everyone gets paid as per one's efforts. Thus it is a legal business and people earn as per their work and their LEADERSHIP ABILITY in sponsoring, motivating, teaching and nurturing the distributors in their network.

Characteristics of A True Network Marketing Company :

1. The basis of company's compensation plan is the sale of the product (self consumption by the distributors and sales to non distributors) and not the franchise fee collected from the new distributors in the team.

2. The firm acknowledges that it is not easy to sell or recruit and train other sales people and that it requires time, effort and personal commitment.
3. Distributors are assured of a continuous supply of quality products.
4. Requires no more than a minimal initial inventory to become a distributor.
5. A guarantee in writing that any products ordered but not sold will be bought back by the company within a reasonable period of time for a certain percentage of the original price.
6. Guarantees to return even the initial subscription fee if the distributor chooses not to build

the business and resign the business within a stipulated period of time.

II The challenge

Interactive distribution involves masses. The opportunity is virtually open to every one who has a dream. *The distributors come from all walks of life, from all age groups and economic backgrounds.* It is very easy to start the business as there are no educational qualifications and no capital requirements but it is very difficult to sustain it for long. The failure rate in terms of many distributors not making any big money or not making it for a long period of time on continual basis is tremendous. Many people just join the business try to work it for a short period, are unable to face the challenges and quit ; many do not quit but remain inactive consuming only products but unable to distribute, many persist longer but cannot sponsor any further distributors/ active distributors over a period of time, feel frustrated and ultimately quit. The reasons for such a scenario are:

1. The distributors come from diverse backgrounds and bring inadequate attitudes, skills and personalities, most of them lack the entrepreneurial qualities. Most people have never experienced success of any significant level and they have a very weak immune system to negative thinking. Most are focused on survival thinking and have been living a life of talent killing mediocrity.

2. Most of them had learnt to be successful by their own efforts and think of success as a win-lose situation, but had never worked on creating teams with win-win solution for all.

3. There are a number of companies that are started by naive marketers offering rewards on the basis of number of distributors in the network rather than sales in the network and are just money circulation schemes with no self manufactured products that form the backbone of the business. Many of them are just pyramids whose compensation plans always reward the beginners more than the late starters This has caused this industry to receive a black eye. The distributors have to face rejections (normal to any selling but difficult to face by non-sales persons, common men and women) as many people doubt the

business idea as another chain or a pyramid and many prospects have a closed mind

4. They usually carry world-class, concentrated, highest quality products which are difficult to market because of the seemingly high price tag.

5. The business is taken as a part-time opportunity by most people and the start up cost is very less which people do not mind losing, therefore many distributors take it casually and quit at the slightest challenge.

6. The business is a free enterprise system, people do it at their own will therefore one cannot question, reward or punish the performance of one's downline distributors.

7. People build it as a second career along with their jobs, professions and traditional businesses thus they face the constraint of time to make it big.

8. Most people lack the vision and the patience to reap the reward, most people are not trained for delayed gratification.

9. People focus more on challenges than the rewards.

A distributor builds the Network in phases. The period for which an individual stays in a phase differs from one person to another. Many never go through all the phases as they go in one and stay there but many cross the initial phases and reach the success phases. The four phases of one's growth in Network Marketing are as follows:

Phase-1 : This phase is the first period of time when a distributor is new and really does not know the business, one's skin is not 2-inches thick, one has no experience of networking and one is on a major learning curve and makes mistakes. This is where the distributor develops his belief in the industry and many things can shake his focus like the negative attitude of the family, spouse, friends and coworkers. In this phase a 80 to 90 % of people quit as their feelings are constantly hurt by their negative prospects. The problem is not the negatives but the lack of understanding as to how to take it.

Phase-2 : In this phase the group starts growing and there are more consistent paychecks . In this phase one starts to see some leaders emerge and one senses some beginnings of momentum. One sees growth in the group because of downline leaders.

Phase-3 : In this phase big money starts flowing not only for the distributor but for his downline leaders as well. This phase is where one starts having a "Layered Leadership" and that simply means one has leaders in layers in one's downline in many legs and they have now started to have leaders showing up in their group as well.

Phase-4 : This is the "Wealth Creation" phase. In this phase it does not matter whether one builds the business or not, it continues on even in the event of one's death. Many people get close to it but never achieve it because they lack leadership skills to take it to this level, they may come close to it but yet don't understand it. It is that last 10% effort most never give that determines this phase.

III The Success Mantras

While the failure rate in network Marketing is very high , the success of many is equally amazing. Many people with great educational and/or business backgrounds and the people already successful in their jobs, businesses and professions have achieved extraordinary feats in Net Work Marketing but so have many common men and women who do not have fancy degrees (even illiterates) and/or came from poor or lower middle class background. One finds people from almost every background – priests, bus conductors, house-wives, doctors, mechanics, engineers, teachers, business managers successful in Network Marketing. So, despite a big failure rate what lies behind the big success of many?The success lies in the following aspects.

1. Marketing vs. selling : The success in Network Marketing lies in duplicating and building a team of highly motivated people who are ready to learn and face all the challenges. The success does not lie in convincing those who do not have a burning desire for the rewards offered by the system but by sharing the idea with a large number of people without any pre-judgements, and finding those who have a burning desire for the rewards offered by the system for only

an individual who has the greatest desire will put in great efforts and will pass through all the phases to reach phase-4.

2. Getting oneself and one's downline Distributors Trained:

Most Network marketing companies have training cells that train the distributors on the following aspects:

1. Knowledge about the products and services offered by the manufacturer.
2. Effective product presentation and product sale skills.
3. The new distributor sponsoring skill- the skill of contacting, inviting, sharing the idea and follow up.

In order to be a successful network marketer one needs to be well acquainted about the products, their features ,their cost, their usage , their comparisons with the competitors etc. and must duplicate it down the line.

3. Developing one's ownself and the team

Network Marketing is a business for masses. The challenges mentioned and the nature of the business requires development of Leadership potential of distributors. The distributors are common men and women with dreams. *They need a paradigm shift and a tremendous change in the emotional and spiritual aspects of their personality.* One needs to focus on E.Q (Emotional Quotient) and Spiritual Quotient (S.Q.) of the distributors. The focus has to be on inner growth, the education which is not focused upon even in best B-schools (Amway is regarded as a para-religion by many people.)

The true Network Marketing companies do have such development programmes for the distributors. The distributors are encouraged to buy the best reading material comprising world class, highest quality books on Leadership and Personality Development (translated in most of the regional languages), listen to the audio tapes/CD's, watch VCD's of successful distributors, attend meetings and seminars where the distributors are taught live by highly successful distributors themselves.

In order to be successful a distributor needs to focus on long term personal development programme for self and his team that touches the following aspects :

1. Building and restoring a person's self confidence and self esteem., unleashing the greatness inside *that God has put in store for all human beings, helping a person discover his own self worth, taking him towards self-actualization and realization.*
2. Encouraging people to overcome their fears by doing things practically, making mistakes, admitting them, correcting them and improving.
3. The ability to touch the human spirit by speaking from the Heart.
4. Money management, delayed gratification and Asset –building.
5. Time management. The distributors must learn to distinguish between urgent, non urgent ,important and unimportant tasks and lay emphasis on the important and urgent tasks that can have a long term implications for their life. They must also learn the art of delegation.
6. Physical appearance management.
7. Perseverance.
8. Belief in the grace of God.
9. Respect for all.
10. Respect for one's dream.
11. Positive mental attitude.
12. Ethics.
13. Love for humanity and commitment for family, and
14. Relationship building.

Conclusions

Network Marketing considered to be the wave of the future is one of the most misunderstood ways of moving products. The get quick-rich money circulation

schemes, the pyramids and the ingenuine and naive marketers have made the Industry looked at with a black eye resulting in negativity and a number of challenges for genuine corporations and their distributors. Due to several reasons the failure rate for distributors is very high, but the success of people from varied backgrounds has proved that the system can work for anyone who has a dream and is ready to change and focuses on the Success Mantra's.

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