

Network Marketing

Subject: Commerce

Lesson: Network Marketing

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University

Network Marketing

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Learning Outcomes

After you have read this chapter, you should be able to

- Understand the concept of network marketing;
- Identify the products that can be sold through network marketing;
- Explain how network marketing works;
- Identify the industry leaders and the different forms of network marketing;
- Distinguish between network marketing and direct marketing/selling;
- Appreciate the reasons of its growth;
- Explain the strategies for successful network marketing;
- Develop the skill to build a network marketing business;
- Value the network marketing as a business opportunity.



Network Marketing

Introduction

Figure: Network Marketing



Source:

http://www.google.co.in/imgres?imgurl=http://www.cartoonstock.com/newscartoons/cartoonists/jsi/lowres/jsin100l.jpg&imgrefurl=http://www.cartoonstock.com/directory/n/network_marketing.asp&usq=iWGbk1ISbal2ttC9trltmcPK1v4=&h=302&w=400&sz=30&hl=en&start=0&zoom=1&tbid=CRcHdzFxr4-RnM:&tbnh=140&tbnw=185&prev=/images%3Fq%3DNetwork%2Bmarketing%2Bcartoons%26hl%3Den%26biw%3D975%26bih%3D410%26gbv%3D2%26tbs%3Disch:1&itbs=1&iact=hc&vpx=391&vpy=78&dur=14726&hovh=195&hovw=258&tx=111&ty=150&ei=IT-9TL-fNYuyvqOd04l7&oei=IT-9TL-fNYuyvqOd04l7&esq=1&page=1&ndsp=10&ved=1t:429,r:2,s:0

During last few years, Indian economic growth has been tremendous and spurt in manufacturing has lead to great economic and social changes. The spirit of entrepreneurship is predominantly influencing the nation's interest. In order to earn more profits, people now a day are exploring new avenues and entrepreneurial opportunities. Network marketing is one of the emerging contemporary trends that exist in business environment. It provides opportunities to start and run home-based business to every aspiring person. Even a person without any experience can start this small business.

Network marketing is a small business which offers everyone who aspires to be successful opportunities to start his own business. No formal education is required to start such business. So everyone can start this business even with full time job.

Today, network marketing is an industry having huge turnover all over the world. Millions of people are associated with various marketing companies as independent marketers.

Concept of Network Marketing

Value addition: Focus of the Section

Concept of Network Marketing

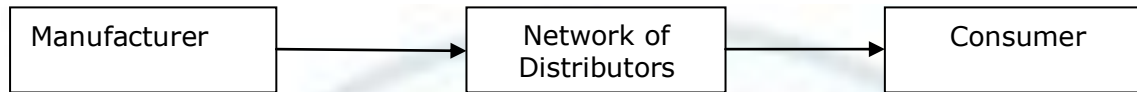
This section gives you the basic understanding of the business opportunity –network marketing. This is the opportunity by which one can become self employed and can earn the additional income besides one's original income. It also appries you of the fundamental reasons for the emergence of network marketing in eighties and nineties. The section makes you aware of the different meanings that network marketing connotes. This also brings out the salient features of this concept and explains how it works. The discussion on its participants follows later.

Network Marketing

Meaning

In the literal sense network marketing is marketing of goods and services through a network of distributors.

However, in marketing terminology it is defined as one kind of distribution via direct channel from manufacturers to distributors and from distributors to consumers.



It refers to a process where product, services, information and business opportunities are sold to family, friends, co-workers, and others through individuals or a chain of individuals. It helps people to prosper by providing them adequate product, services, and information through team-motivated efforts for self-empowerment. It mainly focus on individual customers need for product and services thereby utilising a business opportunity. This is a business opportunity for many because it provides an independent source of income or self employment and it has huge potential income, that is, commission with its over-rider.

Anyone can start this network marketing business with little capital and with the required knowledge about the market one can achieve higher levels of profits.

It is a profession since the professional skills or specific training is required to be successful. The majority of network marketers fail to generate the extra income in the absence of proper training, commitment to personal development and special skills (like people management, negotiations, sales, leadership, money management, and many more) to make sales and build a huge contact database.

The main goal of network marketing is to create a network of distributors and to focus on the sale of particular product and services to earn profits by helping others to build their empire and encouraging the involvement of purchasing party.

Value addition: Did You Know?
Network Marketing companies are not Ponzi Schemes
Very often, people think network Marketing companies are very similar to Ponzi Schemes. These kinds of schemes are basically illegal set-ups members earn commission by recruiting other members wherein actually no product or service existed. The main reason behind this kind of confusion is ponzi schemes were introduced by unsuccessful people to make money by following their own rules. Although Ponzi schemes were a little more common in the past but now a day these schemes usually do not exist for a long.
Source: http://www.articlemonkeys.com/Is-Network-Marketing-or-MLM-a-Ponzi-Scheme-189987.html

Network Marketing

Figure: Network Marketing



Source :

http://www.google.co.in/imgres?imgurl=http://4.bp.blogspot.com/_uyXjIkxGqaA/TChNnQoYCWI/AAAAAAAAAXw/m2TMfEfGh1o/s1600/Network_marketing.jpg&imgrefurl=http://davisoncheney.blogspot.com/&usq=_GTao3I163mQWkn4PEuF-U_OsKP4=&h=298&w=448&sz=19&hl=en&start=0&zoom=1&tbnid=SDIS68uTQjXSfM:&tbnh=101&tbnw=152&prev=/images%3Fq%3DNetwork%2Bmarketing%26hl%3Den%26sa%3DG%26biw%3D975%26bih%3D410%26gbv%3D2%26tbs%3Disch:10%2C185&itbs=1&iact=hc&vpx=597&vpy=51&dur=624&hovh=183&hovw=275&tx=153&ty=126&ei=P0C9TNfbGoYVvAPR5IkN&oei=kT69TJv0NoLCvQOb2YB5&esq=5&page=1&ndsp=10&ved=1t:429,r:8,s:0&biw=975&bih=410

Emergence

Network Marketing evolved simply from a distribution system or a form of marketing channelling goods and services from one manufacturer to the end consumer. It evolved due to the over shelving of stocks resulting from the improvement in production technologies, procedures and processes and elimination of increasing number of traditional middlemen¹ became the need of the hour. As the market grew more customer-oriented, increasing number of middlemen was resented. At the same time the final cost to consumer is increased because of more middlemen.

The manufacturers recruited a large sales force for door to door selling on their behalf, that is, direct selling in addition to their traditional marketing. In the process of development more autonomy was given to the sales task force and they were motivated to increase the sales for the incentives to be given in the form of commissions. Further, in the process they were even asked to appoint their own workforce to help them increase their sales and expand in consideration of the overriding commission on every sales made by the sales representatives appointed by them. This propagated to a large network of sales people or distributors. And that is how the simple strategy became the business opportunity for these sales people and many more to follow in line.

This is one of the fastest growing yet most misunderstood method of moving products that is in vogue today. This entrepreneurial business is also called a wave of eighties. In nineties it not only caught the attention of millions but it made them interested in taking up this opportunity further, either as a part time or as a full time business. And now it is flourishing globally. The advancement in technology has taken it to new heights through internet based

¹ It eliminates the traditional middlemen viz. the wholesaler, the retailer and the agents. But it does increase the number of distributors and sub distributors who are also known as the members of the network. However, they cannot be called the agents.

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network marketing. That is how a simple marketing strategy has developed into a wonderful business opportunity for many.

Value addition: Did You Know?
Origin of Network Marketing

Jay Van Andel and Richard DeVos
<ul style="list-style-type: none">• The network marketing business started during 1940s. A company named "California Vitamins" started the network marketing business where many representatives were selling small quantities of sales and earning profits. This company found out that most of the customers were from families and friends of sales representatives who were able to impress them with the products of the company.• In 1959 Richard De Vos and Jay Van Andel founded another networking company Amway which meant "The American Way". From the first it used network marketing business concepts. It has been more than 50 years that it is operating and now it is a well established company. It is operating in almost more than 90 countries all over the world with more than 3 million business marketers.
Source: http://www.network-marketing-business-school.com/history-of-network-marketing.html

Value addition: Check Your Progress
5.1 Concept of Network Marketing
Which of the following keywords doesn't explain the meaning of Network Marketing? (a) process of selling (b) helping people (c) ponzi (d) business
Answer: (c). Ponzi schemes are illegal business schemes named for Charles Ponzi, who duped thousands of New England residents.

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Reasons for Growth of Network Marketing

Network Marketing is a powerful business concept and is growing at a very fast pace. Millions of people around the world are joining the group of network marketers. As per Direct Marketing Association, more than 13 million people in the US are working in the network marketing industry. More than 100 billion dollars worth of products and services have been moved (distributed from manufacturer or provider to the consumer) through Network Marketing by the end of nineties and the figure is growing rapidly. The attributes like freedom of work, freedom of mobility, residual income, more money, self employment, home-based nature of this opportunity lead to the fast growth of this industry. The most important among them is the income it can provide to the network marketer.

More freedom

It provides freedom of work to people. People enjoy the freedom of mobility, more choices and more control over their lives. They are not stuck to routine office jobs and schedule of 9:00-5:00.

More money

It provides an opportunity to make money in addition to the regular earning from the regular job if one has taken network marketing as a part time activity and even more money if one is engaged full time in this small business. For every sponsor that a network marketer brings, he is paid commission by the company on all subsequent recommendations made by him and his further sponsors. Network marketing provides an opportunity to earn over and above regular income for life time. It does not require any qualification, therefore, one can carry this work even with full time job.

Changing perceptions

In the industrial age of today, one no longer wish to depend only on pension plans or earn more returns from what we have by depositing in banks to earn interest, or invest in the stock market.

Simple but promising business opportunity

Network marketing is a simple business opportunity that takes to fulfilling the dream of being 'on our own' with low initial investment, minimal overhead, and low cost of acquiring clients.

Elimination of middlemen

The long chain of middlemen stands eliminated and the distribution costs are reduced.

Features

- It is just one way of direct marketing and is also called Multi Level Marketing. The modes of direct selling are- i) Direct Mail, ii) Door to Door selling, iii) Tele Marketing, iv) Own Retail Outlets, v) Internet marketing, vi) Network Marketing.
- It is based on relationships. It is the process of marketing business opportunities through personal or individual relationships carrying it further to down line and up line distributors. Network marketer has full freedom of building his own independent down line.
- This channel is the result of overcrowding of products in the shelves of the retailers. The conventional retail route is completely by-passed. The product reaches the customer from manufacturers via the network of distributors of different levels. And distributors belong to the target group of customers. In network marketing, people sell the products they use.
- In this business investment required is small but rewards are lucrative. No formal marketing infrastructure is required. Network marketing generally have small offices

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and signs. Therefore, what is required to be successful in network marketing is to have the education/knowledge based on market tested results.

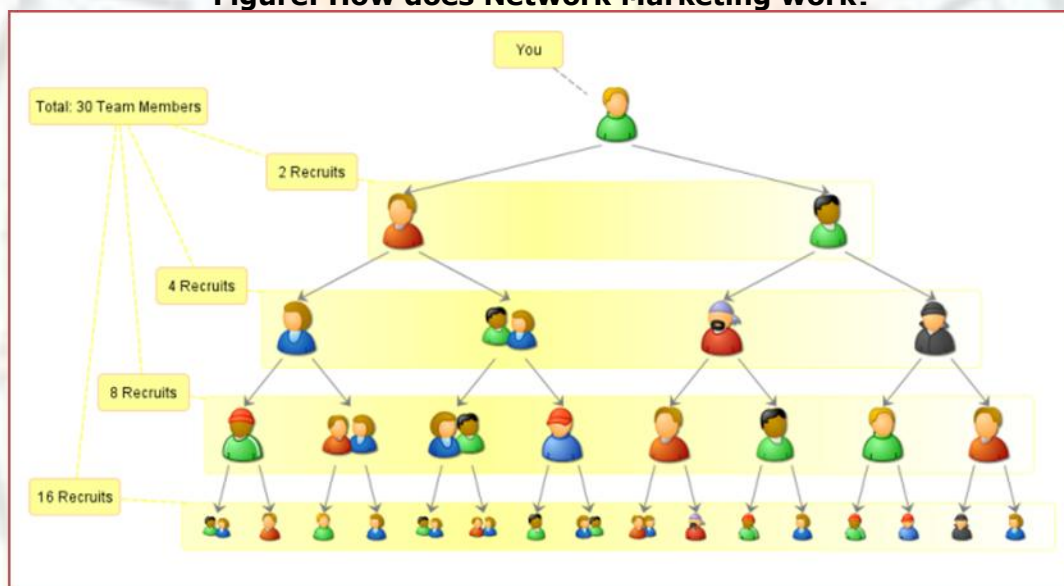
- Instead of the paying for the middlemen the network marketer gets the payment for whatever amount of product he causes to be 'moved'. Generally, the commission structure is not similar with commission system of the direct sales companies.

How does it work?

In a multi level marketing (MLM) arrangement, a parent company is associated with individuals as independent contractors. Their compensation is paid according to their own sales as well as the sales target achieved by others brought into the business. The latter payment is known as an over rider commission and compensation. It acts as motivation for bringing in more and more individuals to create a large network of distributors to reach to new set of customers again and again and target new consumers exponentially.

Theoretically, if five likeminded individuals join the network marketing business with one independent distributor, the down line may appear like following figure 5.3:

Figure: How does Network Marketing work?



Source: http://www.google.co.in/imgres?imgurl=http://www.explore-financial-freedom.com/image-files/leverage_network_marketing.png&imgrefurl=http://www.explore-financial-freedom.com/leverage.html&usq=syyKltHMcZAJDkDUGopS-4HqTw=&h=524&w=410&sz=43&hl=en&start=12&zoom=1&itbs=1&tbnid=KKty1RpKqYbosM:&tbnh=132&tbnw=103&prev=/images%3Fq%3DNetwork%2Bmarketing%26hl%3Den%26gbv%3D2%26tbs%3Disch:1

This follows the rule of Metcalfe which is depicted in Figure 5.4. According to Metcalfe's law, the value of a telecommunications network is proportional to the number of distributors raise to power level (l) of the system (n^l), where n = number of distributors and l =level at which the distributors are operating. (First formulated by Robert Metcalfe² with regard to Ethernet and then this was followed by others in such applications).

If this rule is applied, every time one group of 5 sponsors manage to sponsor 25 distributors since each sponsor is sponsoring 5 distributors. This process continues at each level making

² wikipedia.org/wiki/Metcalfe's_law - 23k

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it 3125 at the fifth level. This gives the ample opportunity to the sponsor to get enormous overriding commission by adding to their residual income.

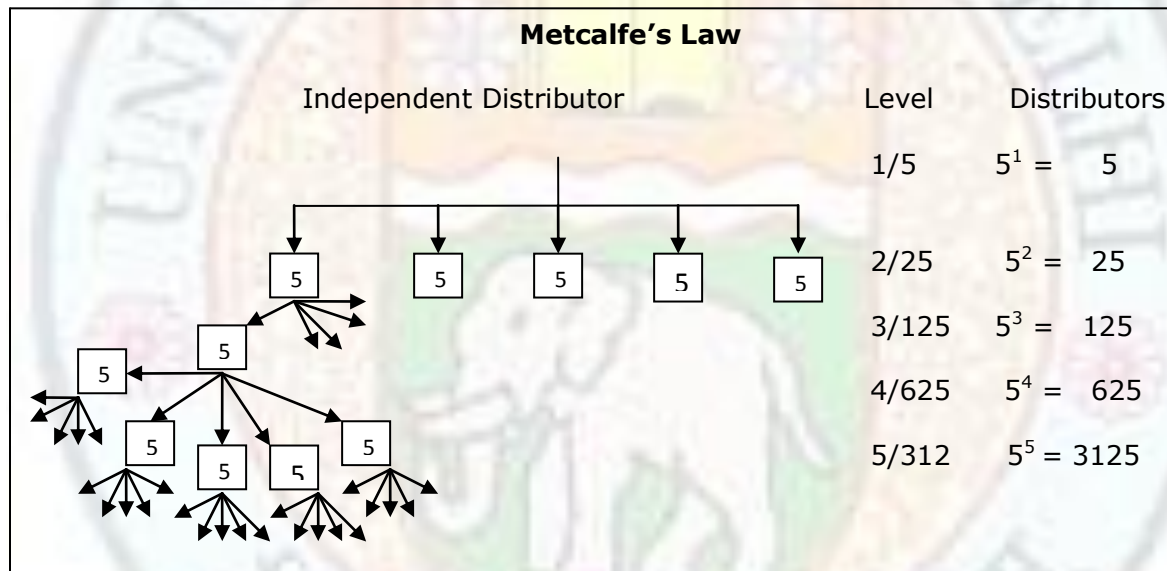
Besides this number game, each distributor in the network owns his business and continues to remain the head of his business. He distributes products and builds a network of distributors by selling the business opportunity. He is not just selling the product.

In network marketing, each one is assisting others and is leveraging their time. Each one in the process gets paid or compensated for achieving their financial goal. One's success is dependent upon oneself. There is no boss around. Each one is the boss oneself. It makes him/her a small business owner.

It is a powerful and efficient method where product and services are channelized to consumers from the manufacturers. But it requires lot of patience and hard work, and at least initial first few years of focused efforts before it starts giving desirable results. As we know that word of mouth spread of information is the most powerful kind of advertising, network marketing uses this tool to advertise its product and services.

Network marketing is based on word of mouth advertising, the most powerful kind of advertising.

Figure: Metcalfe's Law



Who participates in Network Marketing?

The network marketing techniques and skills can be used by anyone who wishes to successfully explore opportunities for a new house or business.

Any common person, an average person irrespective of their gender, age, their financial and employment status, can get involved in this home based business of network marketing and build wealth. Common people like you and me, who may not have enough money, but are motivated to work hard to earn residual money and have sales and communication skill can participate in network marketing.

The participant in network marketing can be neighbour, friend, relative or a co worker through reference of each other, which is a common method of network marketing. The main reason for the large scale participation is that these are the people with whom we often share our day today experiences and information regarding various product and services. This sharing may influence their future purchase or use-behaviour. These may

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participate in the network marketing activity by being self employed independent distributors. They are also known as net-worker, down line distributor, up line distributor or simply an end user.

The participants who have the required knowledge about the company's vision, their product and services, and customers needs are likely to be more successful.

Value addition: Check Your Progress	
Concept of Network Marketing	
Match the following terms with their right explanations:	
a) Network marketer	i) Distributors recruited by the marketer (in reference) and marketer receive commissions on their sales and the sales of the distributors they recruit.
b) Down line	ii) The Distributors who are above the marketer (in reference) in the MLM hierarchy and who receive commissions (overrides) from the marketer's sales.
c) Up line	iii) An independent distributor who receives commissions for both sales of the company's products and services made by himself and by other people who are recruited by him.
Answer: (a)-(iii), (b)-(i), (c)-(ii)	

Value addition: Check Your Comprehension		
Concept of Network Marketing		
1. Which of the following is the feature of network marketing?		
<ul style="list-style-type: none"> i. Large organization ii. Traditional chain of distribution. iii. Huge capital investment required. iv. Independent down line. 		
2. Given below are the keywords that you may or may not have read. Identify the terms which spell out the reasons of growth of network marketing:		
(a)More freedom, (b)easy money, (c)promotion of investment from NRI, (d)changing perception, (e)complex business opportunity, (f)elimination of middlemen		
Pick the option that best suits.		
This section...		
Completely understood <input type="checkbox"/>	Partially Understood <input type="checkbox"/>	Not understood <input type="checkbox"/>
↓	↓	↓
Move on to next section	Move on to next section but note that you need to revise this.	You need to re read this and discuss it with your batch mates.
Answer: 1. (iv).		
2. (a), (d), (f)		

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Value addition: Test Yourself
Concept of Network Marketing
<ol style="list-style-type: none">1. Explain the meaning of Network marketing with regard to following words: Distribution marketing, process of selling, helping people, business, profession2. Write at least five keywords that explain the emergence of network marketing.3. Pick up any five keywords that describe the growth of network marketing.4. Specify the kind of monetary gain the distributor at the first level and at the fourth level get.

Forms of Network Marketing

Value addition: Focus of the Section
Forms of Network Marketing
<p>This section describes the three forms of network marketing that relates the number of customers with the sales person. This also identifies the kind of products that can be sold through these different forms.</p> <p>The section very briefly makes you aware of the differences between the network marketing and direct selling.</p> <p>It is good to identify with the real life example to understand the concept clearly. So, this section tells you who can be called a leader and accordingly who is the leader.</p>

One-to-One Selling

A salesperson approaches a single potential user to sell his products. Producers of personal care products, detergent powders, cleansers, confectionery items, water purifiers, Encyclopaedias, are doing one-to-one selling.

One-to- Many

In one-to-many selling many (party of relatives, neighbours and friends) get together and are organized in the form of a party. A salesperson, who may be one of them or an outsider, demonstrates his products and takes orders. Examples of such products are health products, beauty products, non-sticking utensils and the likes. Tupperware, Lakme, Oriflame, have been selling like this.

Multi- Level- Selling or network marketing

This kind of marketing is to help others in building their business. A company recruits independent distributors for its products. Each of these distributors sells the products and recruits their consumers as sub distributors and these sub distributors also do the same to sell their products. As the process of marketing passes through many levels of distribution it is called multilevel marketing (MLM). Modicare and Amway are its typical examples.

Value addition: Pause and Think
Forms of Network Marketing
<p>ABC Ltd appoints a contractor (say M) for selling its goods and services to the consumers using non conventional methods. M besides selling goods and services of ABC Ltd further appoints five likeminded people who sell on M's behalf. Those five people have all the intentions of making some other people their sub sub-contractors. Is M a network distributor? Is he involved in network marketing? Is he creating his own network of distributors? What status the ABC ltd company has.</p>
Answer: Yes to all questions. ABC Ltd Company becomes the parent company

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Network Marketing vs. Direct Selling

Though Network Marketing is just one way of marketing goods and services, yet it is quite different from direct selling from where it originated.

Table: Difference between Direct Selling and Network Marketing

Basis	Direct Selling	Network Marketing
1. Kind of Market	It is seller based.	It is buyer based.
2. Price	They market higher priced products and services.	They market reasonable priced products and services.
3.Type of sale	They sell usually one time sale items.	They sell items with repeated demands.
4.Residual Income	They give higher commissions but have very little or no residual income.	They have smaller commissions, but have the benefit of more residual income.
5. More initial investment needed	Direct sales cost more to get involved	Lesser initial investment is required.
6. Nature of work	The participant works for the company and remains the employee of the company.	The participant is the boss of his own and grows towards becoming an independent and successful business person himself.

Products and services of network marketing

The products and services that are priced neither too high nor too low; that people consume in a short period; that are non durable consumable products with repeated demands but not be at the extreme end of consumption are ideal for network marketing. Some of the examples are given in the box below:

Examples of Products and Services those are suitable for network marketing

Products: i) Children books, ii) Household cleaners, iii) Nutritional products, iv) Water Filtration, v) Weight loss Products, vi) Personal care products.

Service: Communication Services.

Value addition: Did You Know?
Network Marketing Firms in India
In India, prominently operating network marketing firms are Amway India, Forever Living, Modicare, Avon Beauty, Oriflame India, Hindustan Liver Network, Herbal Life, , AMC Cookware P S Press Service, Direct Educational Technologies.
Source: http://en.wikipedia.org/wiki/Amway

Industry Leaders (Real life example)

The leader in industry is one who either starts early than others or has the largest share in the market. The example is Amway, which was the early starter.

Amway: It is a network marketing company founded in 1959 by Jay Van Andel and Rich de Vos. The full form of the company's name is "American Way". Amway pioneered the concept of network marketing. The original intent of the founders was to create a business using a novel means of product distribution that facilitates entrepreneurialism, understanding of economic management, and economic independence among its associates (now the term is independent distributors.)

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Amway operates in almost ninety countries all over the world through affiliated companies. It operates mainly in personal care products, nutrilit dietary supplements, water and air purifiers, jewellery, and cosmetics. Later on product line grew with a new detergent, and hair care range added. Amway India was established in 1995 and commenced commercial operations in 1998.

Value addition: Did You Know?
Examples of Network Marketing
Amway Corporation: household goods, personal care and nutritional products; Avon Products: cosmetics, jewellery, home-furnishing, and body care products; Brite Music Enterprises: children's song books, cassettes and records; Discovery Toys: educational toys, books, and games.
Source: http://en.wikipedia.org/wiki/List-of-multi-level-marketing-companies

Value addition: Check Your Progress
Forms of Network Marketing
State true or false: In network marketing, the distributor remains the employee of the company.
Answer: False. Reason: The distributor is the boss of his own and grows towards becoming an independent and successful business person himself.

Value addition: Check Your Comprehension									
Forms of Network Marketing									
Hope it is absolutely clear now. However, Pick the option that best suits. This section...									
<table border="1" style="width: 100%;"> <tr> <td style="width: 33%;">Completely understood <input type="checkbox"/></td> <td style="width: 33%;">Partially Understood <input type="checkbox"/></td> <td style="width: 33%;">Not understood <input type="checkbox"/></td> </tr> <tr> <td style="text-align: center;">↓</td> <td style="text-align: center;">↓</td> <td style="text-align: center;">↓</td> </tr> <tr> <td>Move on to next section</td> <td>Move on to next section but note that you need to revise this.</td> <td>You need to re read this and discuss it with your batch mates.</td> </tr> </table>	Completely understood <input type="checkbox"/>	Partially Understood <input type="checkbox"/>	Not understood <input type="checkbox"/>	↓	↓	↓	Move on to next section	Move on to next section but note that you need to revise this.	You need to re read this and discuss it with your batch mates.
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↓	↓	↓							
Move on to next section	Move on to next section but note that you need to revise this.	You need to re read this and discuss it with your batch mates.							

Value addition: Test Yourself
Forms of Network Marketing
<ol style="list-style-type: none"> 1. Write a brief note on different forms of network marketing. 2. Specify five keywords that would distinguish between direct selling and network marketing. 3. Can you think of other products and services that are suitable for network marketing?

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Selection criteria for Network Marketing

Value addition: Focus of the Section
Selection criteria for Network Marketing
The success of the business lies in the right selection of a right company. So, this section gives a brief account of the criteria a network marketer should follow before starting the business as a network marketer. With the help of criteria selection, a network marketer can easily choose amongst the marketing companies which provide him enough opportunities to earn more. It also describes the strategies a network marketer should adopt to earn more.

It is important to make the chosen business opportunity a success rather a great success as far as possible. It becomes important to find out the viability of any business opportunity. The network marketing fails quite often if the selected business is not chosen with proper care and diligence.

It is necessary to understand and analyse various aspects regarding the opportunity, its start-up and running costs. One should also keep in mind the aspects of a network marketing company, its overall policies, its compensation plans, training programs, quality of products and services, before choosing a company which may appear right from the point of view of earning residual income. So one needs to be prudent enough to select the companies with which one has to deal with and deal for.

Those companies should be chosen for the business opportunity which have integrity and are always prepared to extend full support to entire up line or down line distributors, stand behind their products and services, and give some training or education for this business. Those companies should be selected that have solid and qualitative product or service which one can use and talk about with some special or unique feature, a genuine and long term need in the market. It should also have a large untapped market for products and services it is offering. One should also analyse that the products are not overpriced unless it is unique product or an exclusive patented product.

Those companies should be only accepted that have good and proper management, have duplicable business system which can be used by the network marketer, distribution driven policy, that is, the company takes its decisions keeping its distributors or salesperson in mind and has promising and fair compensation plans which are rewarding to both the full time and the part time distributor, while qualification or individual quotas are well fixed. Those companies should be opted which have clarity about their mission and have a mission statement with ethical standards and values, are honest and disclose about their ownership, financial strength, and product development, so also the companies that are well capitalized and have enough of liquidity for meeting infrastructure needs, recruiting competent people and keeping themselves technologically advanced. The network marketer should investigate its up line from the point of view of its ethics and leadership skills. In fact the up line should be chosen in the same manner as one would do for choosing a partner.

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Value addition: Did You know?
Why Network Marketing has Failed in India
<ul style="list-style-type: none">• Generally network marketing has not been successful in India as qualified people prefer employment instead of entering the business. Only Amway has succeeded in India.• It requires high level of risks of which people are not habitual.• People fear that they will lose money.• Some people just feel frustrated and give up.• There are limited numbers of network marketing companies in India and that too are foreign companies.
http://www.scarlettdiaries.com/mlm-system/many-peoples-fail-in-network-marketing-and-mlm-in-india-because-they-dont-follow-system-what-is-system

Strategies or Ingredients for Successful network marketing

Following are the strategies a network marketer should adopt to earn more:

Select a good network marketing company

The foremost important strategy to be successful is to select a good network marketing company to be associated with. It should suit to the marketer's personal style, interest and skills.

Select right sales tools and method

Select the simple but the right kind of sales tools and methods, marketing systems, and compensation plans only after careful understanding, analysis and evaluation with all commitment and patience. Budgeting for marketing, advertising rather than only following 'word of mouth publicity', though it is a powerful medium, is important. The best approach for network marketing is a consultative sales approach,

Follow relationship marketing technique

Establishing relationship is the foundation of successful network marketing business. And communication is the key to relationship. Adopting the policy-'keep in touch', that is, regular communication with the existing and prospective customers and down line or up line distributors becomes the key to success.

Network marketing is similar to a number game

When the marketer is in touch with larger number of people, there are more chances of reaching to big business builder and finding business prospects. But the strategy should be to gather customers and business partners rather than recruiting and getting everyone on the product. Success can be at hand with handful of representatives, if they genuinely know how to gather customers and others with strong interest in the organization for the business. Choose a strong helping up line and create a strong down line of success-oriented people.

Strive constantly to meet the target

The key strategic element critical to the success are promotion, persistence, and patience. Promotion is the main support system of network marketing. Constant striving to put products in front of a targeted audience is a must. Persistence is a key to success. One has to persistently work even if it does not give enough rewards in the beginning. And patience is vital.

Have Patience

Keep remembering that network marketing is a real business, though small in nature. And like every business it also needs consistent sweat. It has a gestation period, may be of a smaller duration, needs education and training, and again may be of different kind. And that network marketer is successful who knows their products, their customers, and the

Network Marketing

company's vision, has a good and effective business plan, takes independent and quick decisions and make oneself accountable to one's own actions.

Make use of sophisticated communication techniques

The Network Marketing system is a wonderful business opportunity leading to huge residual income if proper tools- like automated e-mail system and automated network marketing system are used. The marketers should use various sophisticated marketing techniques to extend the network across the country and save time. Examples of such sophisticated techniques are such as the internet, conference calling, and other long distance sponsoring techniques.

Value addition: Did You know?
Government's Role
<p>Network marketing industry is looking forward towards Government to come up with proper legislation with regard to network marketing business. This step is expected to boost and promote healthy competition, eliminate fraudulent players in this industry.</p> <p>So far there is no specific law framed by the government for this entrepreneurial opportunity. It can't tell anybody whether a network marketing plan is legal or not. It is of the opinion that this is a matter of personal choice to join a network marketing group. There are good as well as bad companies in the market and it is difficult to distinguish a Legal network marketing systems from unethical and illegal schemes.</p> <p>However, in India MLM business is governed by Indian Prizes and chits Act namely, The Prize Chits and Money Circulation Schemes[Banning Act 1976]</p> <p>If one is really interested in availing the opportunity of business through the network marketing, one needs to be careful enough to select the company. It is better if one selects a legal network marketing company.</p> <p>There are some ways through which one can ensure about the legal aspect of the company.</p> <ol style="list-style-type: none">1. The company needs to obtain Reserve Bank Of India Certification u/s 13 of the act. This also states that the State government has the power to make rules. So it should be ensured that the company offices in the territory in which one is trying to open the business have proper documents supporting this requisite.2. One can also check if the company, one is opting for, is legal by checking if it is registered in India through Ministry of Corporate Affairs, India.3. Check if the company is registered with FICCI (Federation of Indian Chambers Of Commerce and Industry). <p>The problem from the fraudulent schemes became so severe in U.S. that the U.S. Government had to intervene to help its working population. Following are some guidelines that one who aspire to be a successful marketer should keep in mind.</p> <ul style="list-style-type: none">• Avoid schemes that offer commission for recruiting others.• One should not enter into an agreement which requires the purchase of expensive inventory because these plans may collapse at any time.• One should not pay attention to the claims of enormous earnings and payment through continued growth of distributors. Such claims may be suicidal.• One should not sign any contract in high-pressure situations and opportunity meetings.• Finally, one should thoroughly check out every plan being considered for business as mostly marketing plans use generally accepted practices. Some of the practices may restrict how much inventory a distributor can purchase. In theory it does not help a distributor to achieve targets for additional bonuses.

Network Marketing

For more information: <http://www.christianet.com/mlm>

Source: <http://hubpages.com/hub/Legal-Check-of-Indian-Network-Marketing-MLM-Companies>
<http://www.christianet.com/mlm/mlmnetworkmarketing.htm>

Value addition: Check Your Progress

Selection criteria for Network Marketing

Arrange these in order:

- (a) Planning (b) Directing (c) Taking corrective action (d) Measuring (e) Organizing

Answer: (a) (e) (b) (d) (c)

Value addition: Check Your Comprehension

Selection criteria for Network Marketing

Pick up any five keywords that describe the strategies or techniques that can be adopted to be successful.

Tick the option that best suits.

This section...

Completely understood <input type="checkbox"/>	Partially Understood <input type="checkbox"/>	Not understood <input type="checkbox"/>
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Move on to next section	Move on to next section but note that you need to revise this.	You need to re read this and discuss it with your batch mates.
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Network Marketing

Value addition: Test Yourself

Selection criteria for Network Marketing

- | |
|---|
| <ol style="list-style-type: none">1. Identify the features of the products that can be sold through the channel of network marketing.2. Explain the strategies for successful network marketing; |
|---|

Evaluation of Network Marketing

Value addition: Focus of the Section

Evaluation of Network Marketing
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Now that you are well aware of the concept of network marketing, we next take up the issue of critical appraisal. The first section defines the benefits from the point of view of both, the company and the network marketer. The second section details the limitations it poses to both the company and the network marketer.
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Benefits of Network Marketing

Network marketing is beneficial to the network marketer as well as to the company which facilitates network marketing.

From the point of view of a Company

- Network marketing gives an opportunity for continuous expansion of the distribution network which helps to increase the sales turnover of the company.
- The increased sales means increased compensation or commission to the existing sales force.
- It becomes easier and quicker for the company to enter new markets.
- They get cost advantage because of low overheads in the absence of requirement of infrastructure in the form of showroom and stores.
- Besides this, overhead costs are low because not much advertising is needed.
- Innovative products can be well demonstrated and introduced by the manufacturer through a distributor.
- The network marketer can maintain high profit margin on his product.

From the point of view of a network marketer

- It works by leveraging the times of others.
- Network marketer's success or failure is dependent on his own action. So he works as an independent businessman and is his own boss.
- It provides a good business opportunity to many people to earn money by being engaged as part-time or full time with a very little initial investment.
- It fulfils his desire to work when he wants.
- It provides easy and fast means of entering the market and making good money.
- Though the commission structure is less up-front than the other direct marketing methods, it has the benefits of building residual income.

Network Marketing

Value addition: Did You Know?
Traditional Business vs. Network Marketing
a) In traditional business, you will have to meet all the advertisement cost whether people buys or not. Whereas, in case of network marketing which is word of mouth spread of information, you only have to pay when people buys your services and products.
b) Traditional business generally faces stiff competition with counterfeit products. Hence the producer might have to compromise the price of the products to compete with the counterfeit goods. Whereas in network marketing, customer directory deal with producer of goods and services. There is no compromise regarding the price as there are no middlemen or conmen.
c) In traditional business there is no scope of income over and above regular income. But in network marketing, one can earn more residual income after building a large organization.
d) Generally, in traditional business if emphasis is put on personal development then its only to support organizational growth not of individual growth whereas network marketing focuses more on personal development for the success of the business.
e) In traditional business, no financial freedom is provided because it may be a threat to the organization. But in case of network marketing, marketers become financially free because their compensation is based on the targets realized.
Source: http://hubpages.com/hub/Network-Marketing-Advantages-and-Disadvantages

Criticisms/Limitations of Network Marketing

Though the network marketing is getting very popular around the world, yet it is criticized by many people. And it is not considered a good business at all.

From the point of view of a company

- The company faces difficulty in sales forecasting leading to increased risk of under or over stocking of various items.
- Establishing close relationship with the customers is difficult, though this is one of the strongly required strategies of successful network marketing.
- Brand building is impossible without advertising.
- Distributors often become largest customers and hence take over control of the company.
- The company cannot keep control on its large sales team's actions.

From the point of view of a distributor or a network marketer

- The network marketing is not easy at all.
- It causes concern and frustration because of flattened sales graph or low sales turnover in the absence of training and marketing skills.
- It is based on contradictory belief, that earning money needs investment of money, time, and energy and on the other hand it is believed that network marketing needs very little investment.
- The network marketing/MLM industry has a very shady reputation. Many people feel it is a scam or just a ponzi scheme. And most of the relatives or friends do neither want to get involved nor indulge in any such purchase or selling.

Network Marketing

Value addition: Misconceptions

How people feel about Network Marketing

- I'll get rich quickly with little effort on my part.
- There is no need of any sales or business experience.
- It is a hobby and not much effort is required.

Source: <http://ezinearticles.com/?7-Advantages-of-Network-Marketing-Businesses&id=568831>

Value addition: Interesting Facts

Ugly Side of Network Marketing

There could be various factors which may prevent network marketers from realizing his true potential. If one of these factors could be reversed, network marketing may become the most popular career in the world. What could be this factor? It is inter personal attack of network marketers within the same industry by backbiting and slandering each other. As in network marketing, word-of-mouth advertising strategy is adopted; marketers have to rely on person to person information to share the benefits of a new product and service or to inform someone about a new marketing business venture.



Source:

http://www.google.co.in/imgres?imgurl=http://networkmarketingreview.com/www/wp-content/uploads/image/mymlmisbetterthanyourmlm_cartoon500.jpg&imgrefurl=http://networkmarketingreview.com/14/what-the-network-marketing-industry-needsae%25C2%25A6/&usq=1U4t-LBTe6iGWVigTj-uCZthsk=&h=454&w=500&sz=44&hl=en&start=20&zoom=1&itbs=1&tbnid=OzB_VgSHlzzW3M:&tbnh=118&tbnw=130&prev=/images%3Fq%3DNetwork%2Bmarketing%26hl%3Den%26gbv%3D2%26tbs%3Disch:1

Network Marketing

Value addition: Did You Know?

How to make Network Marketing Successful?

Marketers in the networking business should understand that there is a top position for everyone. Therefore, all the marketers would all do better if they work in team spirit while working in different network marketing companies. Marketers should not spread rumors about competitor's product and services in order to sell their products and services.

One can easily imagine, all marketers would be successful if they learn to support each other in the industry instead of competing with each other. They should learn themselves the difference between ethical and unethical business practices. They should pay respect to other marketers and love their network business.

There is strong need to have unity in the legitimate and ethical network marketing companies and by doing so they can share their success story in the industry. As network marketing is the greatest home-based business strategy in the world, by uniting the network marketing companies, this industry can prosper and become the most powerful tool to supply goods and services at the door steps of the customers at reasonable prices.

Source:

http://www.google.co.in/imgres?imgurl=http://networkmarketingreview.com/www/wp-content/uploads/image/mymlmisbetterthanyourmlm_cartoon500.jpg&imgrefurl=http://networkmarketingreview.com/14/what-the-network-marketing-industry-needsae%25C2%25A6/&usq=_1U4t-LBTe6iGWVigTj_uCZthsk=&h=454&w=500&sz=44&hl=en&start=20&zoom=1&itbs=1&tbnid=OzB_VgSHlzzW3M:&tbnh=118&tbnw=130&prev=/images%3Fq%3DNetwork%2Bmarketing%26hl%3Den%26gbv%3D2%26tbs%3Disch:1

Value addition: Check Your Progress

5.4 Evaluation of Network Marketing

Which of the following is not an advantage to the network marketing Company?

- i. Losing country
- ii. Cost reduction
- iii. Increased sales turnover.
- Iv. Continuous expansion

Answer: (i). Reason: One can never lose a country while network marketing.

Network Marketing

Value addition: Check Your Comprehension

5.4 Evaluation of Network Marketing

1. State whether true or false: Network marketing requires full time engagement.
2. Pick up any five keywords that describe the benefits and limitations of network marketing from the point of view of both, the company and the network marketer

Pick the option that best suits.

This section...

Completely understood <input type="checkbox"/>	Partially Understood <input type="checkbox"/>	Not understood <input type="checkbox"/>
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Move on to next section	Move on to next section but note that you need to revise this.	You need to re read this and discuss it with your batch mates.
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Answer: 1. False. Reason: Network marketing requires part time engagement.

Value addition: Test Yourself

5.4 Evaluation of Network Marketing

1. "Benefits of Network marketing outweigh its short-comings." Comment.
2. Do you agree that network marketing needs very little investment?

Value addition: Surf and Learn

Network Marketing

1. Surf the net and find out the leaders other than Amway and give their product profiles too. (e.g. Avon products, Proctor and Gamble etc. You can search through search engines like google, yahoo etc.)
2. Surf the net and discover the five hidden secrets of network marketing.

Value addition: Key Words

Summary

[Emergence](#)
[Distribution marketing](#)
[Helping people](#)
[Multi-Level-Marketing](#)
[Metcalf's Law](#)
[Eliminates middlemen](#)
[Freedom](#)
[Relationship marketing](#)
[Selection Criteria](#)
[Strategies](#)
[Benefits of Network Marketing](#)
[Limitations of Network Marketing](#)

Network Marketing

Summary

- Network Marketing is the opportunity to earn an income from simply referring products or services to others, and teaching others to do the same.
- If you refer to friend to a restaurant, he or she will likely refer the people they know to the same restaurant. And this makes a network of people who shares the information with others.
- Network Marketing allows one to get paid for the referring of products and the opportunity to others.
- This is a business opportunity which can be availed of even if one is already employed. This is a very peculiar opportunity because it gives the self employment to non-employed and to the employed ones also (if they can spare their time for this marketing opportunity).
- One can earn huge money with this business depending upon how much time and energy one can spend on it.
- It is important for a network marketer to chose the right kind of company and use right strategies to turn a business opportunity into a successful venture.
- Though cost reduction, increased sales turnover and continuous expansion are some of its advantages; it also runs the risk of earning bad reputation due to some shady people.



Network Marketing

Exercises

Short Questions

5. 1 Which kind of products and services are suitable for network marketing?
5. 2 What are the characteristics of network marketing?
5. 3 What do you mean by up line and down line marketer?
5. 4 Write a brief note on different forms of network marketing.

Long Questions

5. 5 What is network marketing? Discuss its advantages & Limitations.
5. 6 What are the features of network marketing? Give reasons for its growth.
5. 7 Give the list of keywords/ qualities that you would look forward to while selecting a company for network marketing.
5. 8 Can you now identify why network marketing is a business opportunity?
5. 9 If you choose to increase your business in network marketing through advertising which method(s)
5. 10 Would you like to opt for advertising keeping your promotion within your budget?
5. 11 What are the key strategies that can build successful network marketing?
5. 12 Comment: "Network Marketing is based on contradictory belief, that earning money needs investment of money, time and energy and on the other hand it is believed that network marketing needs very little investment."
5. 13 Comment: "Network Marketing has a very shady reputation".

Value addition 5.4.11: Past University Questions	
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Network Marketing	
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- | | |
|------|---|
| 5. 1 | 2005 What is network marketing? Q1a:2 or 2.5 marks |
| 5. 2 | 2007 Same |
| 5. 3 | 2005 What is network marketing? Discuss its advantages.Q2a:5 marks |
| 5. 4 | 2007 What is network marketing? What are its advantages and limitations? Q1b:5 marks. |
| 5. 5 | 2010 Write note on network marketing. Q5: 5 marks |

Network Marketing

Glossary

Brand building: The reputation of the brand is built through the effective advertising which has the ability to draw buyers.

Down line: Distributors recruited by the marketer (in reference) and marketer receive commissions on their sales and the sales of the distributors they recruit.

Ethernet: It is a family of frame-based computer networking technologies for local area networks (LANs). The name comes from the physical concept of the ether. It defines a number of wiring and signalling standards for the physical layer, through means of network access at the Media Access Control (MAC)/Data Link Layer, and a common addressing format.

Leveraging: In finance, leverage (or gearing) is, using given resources in such a way that the potential positive or negative outcome is magnified. It generally refers to using borrowed funds, or debt, so as to attempt to increase the returns to equity.

Metcalfe: Robert Melancton Metcalfe (born April 7[1], 1946 in Brooklyn, New York) is an American technology pioneer who co-invented Ethernet with David Boggs, founded 3Com and formulated Metcalfe's Law. As of January 2006, he is a general partner of Polaris Venture Partners.

Telecommunications network: It is a network of telecommunications links and nodes arranged so that messages may be passed from one part of the network to another over multiple links and through various nodes.

Up-front: Amount paid in the first year.

Up line: Distributors who are above the marketer (in reference) in the MLM hierarchy and who receive commissions (overrides) from the marketer's sales.

Network Marketing

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- 1.
2. **Works Cited**

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Singh, B.P. and T.N. Chhabra, "Business Organisation and Management" (4th Ed.), 2003, Dhanpat Rai & Co., Delhi.

3. **Web Links**

5. 1 Visit the URL <http://www.2gc.co.uk/pdf/2GC-W0412.pdf> and learn more about Generations of Balanced Scorecard.

5. 2 Visit the URL <http://www.nri.co.jp/english/opinion/papers/2002/pdf/np200245.pdf> and learn more about Balanced Scorecard.