

# The Influence Of Demographics On The Perception Level Of Multilevel Marketing Distributors

ISSN 2277-5846

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## Abstract

*Direct selling is the traditional form of marketing. MLM is a variant of direct selling. It is very important for multilevel marketing distributors to perceive things as they really are in order to make accurate and useful decisions. In MLM the distributor are compensated not just for their respective sales but for sales generated by people they recruit. It is very important for multilevel marketing distributors to perceive things as they really are in order to make accurate and useful decisions. Distributors may sometimes show the tendency to believe that they see the real truth before they actually collected ample facts. This paper describes the problems and sets out a research paradigm to investigate the influence of demographics on the perception level of multilevel marketing distributors. A right perception towards multilevel marketing is a prerequisite in building a wide network that eventually results in better performance in the field.*

**Keywords:** *Direct selling, Multilevel Marketing, Distributors, Perception, Compensation plans.*

## 1. Introduction

Multi Level Marketing (MLM) is gaining much attention in business circles recently. The concept of Multilevel Marketing or referral marketing is a method of product distribution. The products are moved through independent distributors. The distributors are given an opportunity to introduce other distributors to the business. Instead of incurring massive media advertising and sales promotion cost, the savings are passed on to distributor consumers.

Direct selling is the traditional form of marketing. Direct selling typically includes in home selling situations such as door to door solicitations, appointments, referrals, and product parties as well as the catalogues and the Internet to disseminate information (Frenzen & Davis 1990). Peterson defines direct selling as “face to face selling away from a fixed retail location”. (Peterson, Albaum & Ridgway 1989).

Direct selling organizations can be divided into two types based on the type of marketing channel namely single-level marketing channel firms (SLMs) and multi-level marketing channel firms (MLMs). Such a distinction has made on the basis of compensation plan. MLMs follows a complicated type of compensation plans compared to SLMs. MLM is generally known as “network marketing” which involves selling both the product and the business opportunity associated with selling the product.

MLMs consist of corporate-level producers that market branded goods or services through a network of independent, member-owned distributorships, which are usually operated from members’ homes (Sparks & Schenk, 2001). In Multilevel Marketing the sellers are compensated not just for their respective sales but for sales generated by people they recruit. Because those involved are compensated down through multiple levels of recruits, this type of direct selling is often called multilevel marketing. The recruiting is generally done through personal networking; thus multilevel marketing is also called “Network Marketing” (Muncy 2004)

It is very important for multilevel marketing distributors to perceive things as they really are in order to make accurate and useful decisions. Distributors may sometimes show the tendency to believe that they see the real truth before they actually collected ample facts. (Michael W. Drafke & Stan Kossen 2002).

Human behaviour is determined by one’s perception. People see, hear, listen and feel the external stimuli through five sense organs; organise the information and make meaning out of it. This process of interpreting stimuli is called perception. Perception depends not only on the ability of sense organs but also a person’s need, mind set, span of apprehension and self image (Palekar D.R.& Pattenshetty P.T. 2000).

This paper describes the problems and sets out a research paradigm to investigate the influence of demographics on the perception level of multilevel marketing distributors. A right perception towards multilevel marketing is a prerequisite in building a wide network that eventually results in better performance in the field. For the purpose of the study, perception can be defined as a process by which individuals organise and interpret their sensory impressions in order to give meaning to their environment. (Stephen P. Robbins, 2003).

## 2. Review of Literature

Direct selling involves selling consumer goods to private people in contexts in which retail selling does not usually occur, such as in homes and workplaces (Berry 1997, p. 21). Network marketing companies are a special type of direct selling organization because their agents can generate income in two ways. They can earn commissions and retail profits by selling directly to retail customers, and they can recruit and manage their own network of sales agents (on whose sales they earn a commission).

Direct selling as a method of non-store retailing has increased in importance as a marketing approach to selling and distributing goods and services. Increased research into this area of marketing has started to find its way into the literature (Darian, 1987; Granfield and Nicols, 1975). Direct selling is differentiated from direct marketing, which is defined as a relational process where products are sold directly to the consumer using direct mail, telemarketing and direct response advertising such as television solicitation.

Direct selling, on the other hand, requires individual one-to-one sales presentations rather than indirect presentations. One type of direct selling is network marketing (NWM), a type of direct selling usually performed by an independent distributor representing the manufacturer or franchisor of a product or service (Bauer and Miglautsch, 1992; Chonko and Caballero, 1989).

A literature review revealed that there was very few research investigating consumers' perceptions of network marketing as a type of direct selling. Peterson (1989) conducted an investigation of direct selling in the USA to determine consumer perception of this form of non-store retail purchase behaviour. They researched how consumers used direct selling to make purchases; they identified consumer characteristics, and consumers' perceptions of the advantages, disadvantages and risk in purchasing products from direct sellers.

The study, by Wotruba (1990), researched the effect public image of the selling job has on the sales activity or inactivity of direct selling salespersons. The study found a direct relationship between a salesperson's low self-image, activity on the job and job satisfaction. However, this varied

between high and low performers. Overall, the salesperson's job image and job satisfaction and performance were positively related.

Consumers hold generally negative views about the very idea of direct selling, and many perceived that direct sales people were overly aggressive, unmotivated and capitalised friendships, or emphasised selling business opportunities and premiums rather than products and delivery (Nowland, 1982).

One of the first new wave studies of the consumer side of direct selling is that of Peterson, Albaum, and Ridgway N.M (1989). This study partially updates Harris study and Nowland studies on the selected consumer issues. Their study aimed to determine the extent to which consumers buy from direct sales companies and document the demographic characteristics of purchasers and non purchasers.

The study by Wotruba and Pribova (1996) reports the distributors' experience of buying from direct sales people, their demographic characteristics and their attitudes towards direct selling. Jayawardhena, Wright & Masterson, 2003 conducted a study and it mainly focused on how demographics affect the motivation of consumers in buying products directly.

### **3. Significance of the Study**

With the economic reforms and liberalisation, marketing will promote India's economic development at an accelerated pace. Most well known multinational companies are already here to generate a strong competition.

The new strategy in the marketing system to capture customers is multilevel marketing. MLM companies are slowly educating the government as to their validity of programmes. No doubt India has the greatest potential in the network marketing in the world. This is because of the existence of the huge middle class, highly entrepreneurial culture, massive international connection, huge technology base and the use of English language. The Network Marketing is currently a subject of hot debate due to some unscrupulous companies exploiting the lack of awareness of distributors. Therefore the present study is an attempt to analyse and elicit information regarding the distributor's perception towards multilevel marketing which might be helpful to properly conceive the very concept of the system and eventually to achieve a better performance.

### **4. Statement of the Problem**

Demographic variables such as gender, age, marital status, monthly income, education, and employment status of distributors may influence on their perception level towards multilevel marketing system. The population and demographic factor, economic factor, natural factor,

technological factor, political factor, cultural and social factors are some of the important external environment stimuli to the consumers purchase behaviour. (Kotler 1995, Keegan 1995). Wide studies have not been conducted to understand the influence of distributor's demographics on perception towards multilevel marketing system in the context of Kerala's environment.

## 5. Objectives of the Study

The study focuses on the following areas.

1. To assess the perception level of distributors toward MLM business.
2. To examine how the concept of multilevel marketing system is perceived by distributors.
3. To study the influence of demographic variables such as gender, age, marital status, monthly income, education, and employment status of distributors on their perception level towards multilevel marketing system.

## 6. Methodology

The present study is based on both primary and secondary data. The empirical data for this study was obtained through a survey conducted among 614 distributors of selected companies in three regions of Kerala. Population of this research is defined to be the adults over 18 years residing in three regions of Kerala who have enrolled as distributors of any of these MLM companies whether they are active or inactive. For this purpose the researcher approached distributors cum customers of four well known multilevel companies operating in Kerala namely Amway, Modicare, Avon and DXN India. The said companies are chosen because they are all affiliated to IDSA and very popular in the multilevel marketing circles of Kerala.

## 7. Hypotheses of the Study

The principal hypotheses, which were considered in this research study, are outlined below.

1. There is no significant difference between the gender status, marital status, educational level and employment status of the respondents and MLM perception level.
2. There is no significant relation between the monthly income of the respondents and MLM perception.

## 8. Data Analysis

Various statistical tools were used for analysing data gathered through the administration of the questionnaire. Consumers were asked questions regarding their perceptions, attitude and knowledge about multilevel marketing. The perception level found among the respondents is presented according to a scale that was developed for this research study. A Likert type scale consisting thirty items was used to measure the level of perception. Responses to these questions

were made on a scale of 1 to 7, with 1 being "Strongly disagree", and 7 being "Strongly agree" with the statement. The expected mean perception level of all respondents was 14.814. This scale uses the following scoring: respondents whose mean score less than 12 (i.e. Mean – standard deviation) indicate low level of perception and mean score beyond 17.626 (i.e. Mean + standard deviation) shows high level of perception. The respondents in between these two values indicate modest level of perception. Mean is one of the important statistical tools used for analysis especially to interpret data gathered through opinion scales. The score of each category were summed and the mean of each category computed.

## 9. Results and Discussion

The first part of the analysis shows the demographic characteristics of the respondents. This is followed by a question-by-question analysis of the results of the study.

### 10.1 Demographic Features

There were 518 male and 96 female respondents. This indicates the very low participation of female distributors in MLM activities. The mean age of the respondents was 37 years. As 45 percent of the distributors belong to the age category of 30 to 40, it is concluded that they are more fascinated to this new system of marketing than other age groups. Majority of respondents (64%) were married. They were also asked to indicate the type of family they live in and majority of respondents (72%) live as nuclear family. Fifty three percent of respondents lived in urban area and 27% lives in semi-urban area and 20 % of the respondents live in rural area. Thus it is seen that more than half of respondents resided in urban areas.

As far as educational qualification is concerned, 44% of the respondents had SSLC or below qualification, 22% higher secondary and only 21% had a college or other degree. The percentage of respondents who attained S.S.L.C or below education is the highest (56%) in northern region. About 39% of the respondents were unemployed, 42 % of the respondents were in government or private service and 19 % of respondents were employed in business or professions.

The findings regarding the general perception level of distributors towards MLM is given in table 1. The table indicates that more than half of the respondents, 57 percent, have low level perception towards MLM. Survey shows that only 19 percent of the distributors perceived the basic concept of multilevel marketing in the right sense. Low level of perception seems to be more in northern region, but it is low in southern region. Distributors having high level of perception are also found in southern region. This is a clear indication to the fact that distributors hail from southern region is more serious towards the multilevel marketing system.

Region	Level of Perception			
	Low	Medium	High	Total
South	79 (23)	42 (28)	55 (47)	176
Central	126 (36)	57 (39)	40 (34)	223
North	145 (41)	49 (33)	21 (19)	215
Total	350 (57)	148 (24)	116 (19)	614

*Note: Figures in parenthesis indicate percentage to total*  
*Table: - 1 Perception Level of Respondents towards MLM*

### 10.2 Gender Status and MLM Perception

The table 2 shows the gender status of respondents on MLM perception and then examines the influence of gender status in perceiving the concept of multilevel marketing

Gender	Level of Perception			
	Low	Medium	High	Total
Male	273 (53)	137 (26)	108 (21)	518
Female	77 (80)	12 (11)	8 (8)	96
Total	350 (57)	148 (24)	116 (19)	614

*Note: Figures in parenthesis indicate percentage to total*  
*Table 2:- MLM Perception by the Gender of Respondents*

It appears that majority of the respondents are male distributors. If the gender of respondents is examined with MLM perception it is seen that about 53 percent of male distributors have a low level of perception towards multilevel marketing and only 21 percent of them have a high level of perception. On the other hand, low level of perception is as high as 80 percent in case of female distributors. Hence it is concluded that male distributors perceived the concept of MLM in a better way than female distributors. Thus there appear to be some influence of gender status and perception towards multilevel marketing.

This phenomenon is further examined with the help of F test. The test was applied at 5% significance level with the hypothesis that there is no significant difference between the gender status of the respondents and MLM perception level.

F value is 1.65. Critical value at 5 percent significance level is 1.32. As the critical value is less than the calculated F value, the hypothesis is rejected. Therefore it is inferred that there is significant difference between the gender of the respondents and the perception about MLM. Thus it is concluded that male distributors perceived the concept of MLM in a better way than female distributors.

Gender	Mean	N	$\sigma$	F Ratio	Critical value	p value
Male	14.67	518	2.89	1.65	1.32	0.0015
Female	16.41	96	2.25			

Table 3:- Relation between Gender Status and MLM Perception

### 10.3 Marital Status and MLM Perception

The table 4 given below shows the impact of marital status of respondents on MLM perception.

Marital Status	Level of Perception			
	Low	Medium	High	Total
Married	218 (56)	97 (24)	78(20)	393
Unmarried	132 (60)	51 (23)	38 (17)	221
Total	350 (57)	148 (24)	116 (19)	614

Note: Figures in parenthesis indicate percentage to total

Table 4:-Marital Status and MLM Perception

In the table, there appears to be a no relation between marital status and level of perception to multilevel marketing. The low and high level of perception could not be traceable on the basis of marital status. However, it is important to conclude that access to multilevel marketing skills is not exclusively dependent on the marital status of respondents.

This is further examined with the help of F test. The test was applied at 5% significance level with the hypothesis that there is no significant difference between the marital status of the respondents and MLM perception level.



Marital Status	Mean		$\sigma$	F value	Critical value	P value
Married	14.75	393	2.87	1.019	1.22	0.4884
Unmarried	15.28	221	2.84			

*Table 5:- Relation between Marital Status and MLM Perception*

F value is 1.019. Critical value at 5% significance level is 1.22. As the calculated F value is less than critical value, the hypothesis is accepted. Therefore it is inferred that there is no significant difference between the marital status of the respondents and MLM perception level.

#### **10.4 Education and MLM Perception**

In Table 6 given below, there appears to be a significant correlation between education and level of perception to multilevel marketing as people who had the lowest perception were most likely to be those with low qualifications. Similarly, people with the highest levels of perception to multilevel marketing were most likely to have attended at least secondary level education. However, it is important not to conclude that access to multilevel marketing skills is totally dependent on level of educational attainment.

Education	Level of Perception			
	Low	Medium	High	Total
S.S.L.C	171 (63)	85 (32)	12 (5)	268
H.S.C	70 (52)	48 (36)	16 (12)	134
College	42 (32)	8 (22)	80 (46)	130
Other	67 (82)	7 (9)	8 (9)	82
Total	350 (57)	148 (24)	116 (19)	614

*Note: Figures in parenthesis indicate percentage to total*

*Table 6:- Education and MLM Perception*

This is also examined with the help of ANOVA. The test was applied at 5% significance level with the hypothesis that there is no significant difference between the education and the MLM perception. The calculated value of F for column variable, i.e perception level, is only 2.185, while its corresponding critical value at 5% significance level is 5.14. The calculated value being less, the difference in the effects of the perception level is insignificant.

Source of Variation	F	Critical Value*	P value
Between perception level	2.185	5.14	0.191
Between Education	1.156	4.75	0.377

\*5% significance level

Further, the calculated value of F for the row variable, i.e educational qualification, is only 1.156, while its corresponding critical value at 5% significance level is 4.75. The calculated value being less, the difference in the effects of the educational level is also insignificant.

In both cases null hypothesis is sustained and hence it is concluded that the educational qualification exert any influence in the perception capability of the MLM distributors.

### 10.5 Employment Status & MLM Perception

Table 7 exhibits the employment status of multilevel marketing distributors. The results in the table reveals that of the 18% of the respondents who were in Government or private employment and 35 % of the respondents who were in the field of business or profession had high level of perception towards multilevel marketing. At the same time only 12 % of the respondents among unemployed have a high level of perception which indicates that they are not fully aware of the intricacies of the new marketing system. Further analysis demonstrates a significant correlation between employment and multilevel marketing. Those who were unemployed tend to have a lower level of perception in multilevel marketing than respondents who were employed.

Employment	Level of Perception			
	Low	Medium	High	Total
Govt/Pvt.	32 (12)	180(70)	45 (18)	257
Business/Profession	37 (31)	40(34)	42 (35)	119
Unemployed	79 (33)	130(55)	29 (12)	238
Total	148 (24)	350 (57)	116 (19)	614

Note: Figures in parenthesis indicate percentage to total

Table 7:- Employment Status and MLM Perception

This phenomenon is further examined with the help of ANOVA test. The test was applied at 5% significance level with the hypothesis that there is no significant difference between the employment status of the respondents and MLM perception.

Source of Variation	F	Critical Value*	P value
Between perception level	2.747	6.94	0.178
Between employment status	0.955	6.94	0.458

*\*5% significance level*

The calculated value of F for column variable, i.e perception level, is only 2.747, while its corresponding critical value at 5% significance level is 6.94. The calculated value being less, the difference in the effects of the perception level is insignificant.

Further, the calculated value of F for the row variable, i.e employment status, is only 0.955, while its corresponding critical value at 5% significance level is 6.94. The calculated value being less, the difference in the effects of the employment status is also insignificant.

In both cases null hypothesis is sustained and hence it is concluded that the employment status exert any influence in the perception capability of the MLM distributors.

#### **10.6 Monthly Income and MLM Perception**

All of the respondents were asked what their monthly income amounted to. It is evident from Table 8 that most of the respondents earned less than `5,000 a month.

The table 8 shows that those with a higher level of income tend to have a higher level MLM perception. But it is not apparent. It appears from the findings that development of multilevel marketing skills does not seem to have much influence on the respondent's level of income.

This phenomenon is further examined with the help of chi-square test. The test was applied at 5% significance level with a hypothesis that there is no significant relation between the monthly income of the respondents and MLM perception. Chi -square value = 122.43. Critical value for 2 degree of freedom at 5 % significance level = 9.49.

As the calculated value is more than the critical value, the hypothesis is rejected. Therefore it is concluded that there is a significant relation between the monthly income of the respondents and MLM perception.

Income	Level of Perception			
	Low	Medium	High	Total
Less than `5,000	249 (30)	93 (70)	32 (30)	374
Between `5,000-10,000	78 (47)	42 (53)	32 (47)	152
Above `10,000	23 (59)	13(41)	52(59)	88
Total	350 (57)	148 (24)	116 (19)	614

*Note: Figures in parenthesis indicate percentage to total*

*Table 8:- Monthly Income and MLM Perception*

## 11. Findings

- i. An analysis regarding distributors' general perception about multilevel marketing system reveals that more than half of the distributors belong to low perception level.
- ii. The analysis about the perception of distributors with respect to gender status reveals that male distributors perceived the concept of MLM in a better way than female distributors.
- iii. As per the study, there appears to be a no relation between marital status and level of perception to multilevel marketing.
- iv. The study reveals that there appears to be a significant correlation between education and level of perception to multilevel marketing as people who had the lowest perception were most likely to be those with low qualifications.
- v. The study reveals that the respondents who were in Government or private employment were perceived well the concept of MLM where as more than half of the respondents who unemployed had little perception about MLM.
- vi. The study shows that, those with a higher level of income tend to have a higher level of MLM perception. It appears from the findings that development of multilevel marketing skills does not seem to have much influence on the respondent's level of income.

## 12. Recommendations

Based on the findings of the study, the researcher would like to give the following recommendations suggestions to strengthen the MLM business and to avoid its present pitfalls.

In order to build up a clean and healthy industry image, the government can legalise the business by enacting suitable law in the country to regulate the operation of multilevel marketing companies. The MLM companies should be brought under the umbrella of consumer protection legislations. The government can impose strict regulations on direct sellers, including an upfront investment and a security deposit to protect consumers. Many of the respondents are joined under the

influence of others especially from friends and relatives rather than really understanding the concept of MLM. . Therefore it is highly necessary to the prospects to clearly understand the pros and cons of the system before he is actually enrolled. Moreover, Government should take sufficient steps to watch the activities of MLM companies. For this purpose, regional nodal offices can be set up which should be headed by nodal officers.

Effective human resource development and training programmes should be arranged by the MLM companies themselves instead of imparting training by upline leaders and distributors. The duration of the training programmes should also be extended. Training materials need to include additional emphasis on the administrative or business aspects of the activity. This skills enhancement would improve performance, increase productivity which would reflect on activity satisfaction and organizational commitment.

### **13. Conclusion and Managerial Implications**

Direct sales have become so popular in our country because it offers everyone the chance of becoming a successful self employed opportunity with the freedom to win. As it is likely to happen in every business MLM industry is also overwhelmed with unscrupulous elements trying to exploit the situation in an undesirable way. When analysed more closely, the non retailing schemes are revealed to have almost no true customers, since almost new products are ever retailed to the general public. Virtually the only people buying the goods are the schemes own sales representatives and their friends or family. They buy goods, not on the basis of their value or need for them, but on the basis of false promises of income.

People wishing to join the business opportunity must make sure that the entry into the business is inexpensive and any investment should only be on products and the quantity of stocking should be purely on the ability of a distributor to sell within a reasonable period of time. Before they join as distributors it is essential to understand the system well and should not be done on the basis of income claims or attract of higher positions.

Findings of this study would help policy makers and managers of companies as well as practitioners to formulate strategies and programs to address the issue by providing better training and awareness programs to MLM distributors in order to ensure efficiency, effectiveness and high productivity in organizations.

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