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COMPARATIVE STUDY ON AMWAY & AVON ON THE BASIS OF MLM

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ABSTRACT

Multi-level marketing is a strategy in which the sales force is compensated not only for sales they personally generate, but also for the sales of others they recruit, creating a chain of distributors and a hierarchy of multiple levels of compensation. Other terms for such concept include network marketing, pyramid selling and referral marketing. Salesmen are expected to sell products directly to consumers by means of relationship referrals and word of mouth marketing. Some people equate MLM with direct selling, although MLM is only a part of direct selling. MLM companies had been subject to criticism as well as the target of lawsuits. Criticism has focused on their similarity to illegal pyramid schemes, high initial start-up costs, encouraging if not requiring salespeople to purchase and use the company's products, potential exploitation of personal relationships which are used as new sales and recruiting targets, tedious and sometimes exaggerated compensation schemes. However not all MLM companies operate the same way, and MLM groups have persistently denied that their techniques are anything but legitimate business practices. Companies like Amway and Avon have been frontrunner in this concept and people have always relied and had faith on such companies. This Paper has been done to find out the perception of the people of Haryana regarding these MLM Companies with the help of Chi-Square Test.

KEYWORDS

Marketing, Network, Consumer, Pyramid, Referral.

1.0 INTRODUCTION TO INDUSTRY

Multi-level marketing (MLM) schemes are one of the fastest growing types of business. However, little has been written about the ethics of MLMs. This oversight is somewhat surprising, especially because some prominent MLMs have been accused of being pyramid schemes. Pyramid schemes were the number one type of internet fraud in 1996, and the fourth most common for mlm of internet fraud in 1997. In the aftermath of recession has witnessed a boom in direct selling schemes also known as pyramid selling, multi-level marketing or network marketing. Boasting huge annual sales they provide 'get-rich-quick' opportunities for thousands of potential entrepreneurs. Alternatively, recent court judgments have labeled such schemes 'a swindle on the public', and 'an illegal lottery relying on misleading literature to obtain subscriptions (Sarker, 1996). This study examines the nature of MLMs and their similarities with and differences from pyramid and endless chain schemes. The paper argues on the fact that MLMs pose some unique ethical issues, issues that are not easy to address or resolve. Multi-level marketing, also known as network marketing, is practice of distributing, selling or supplying products or services through various levels of independent agents (contractors, distributors, etc.). Agents are paid commissions, bonuses, discounts, dividends or other forms of consideration in return for selling products or services and/or for recruiting other agents. The party who recruits another individual is the "upline" of the recruit. The recruited party is supposedly the "downline" of the recruiter.

1.1 SELLING TO FAMILY MEMBERS AND FRIENDS

Some MLMs encourage participants to sell product to family members and Friends and/ or to recruit them into the MLM. Such marketing strategy poses certain ethical difficulties. Participants, desperate to succeed at their new MLM business, may feel driven to pressure relatives and friends into buying cosmetics, water filters, jewelry, etc. In other words, MLMs can alter human relationships, encouraging people to "instrumentalize" relations rooted in love and affection. Relatives may feel somewhat forced into buying goods in order to keep their sons or daughters from feeling ashamed, to show support or to avoid a big fight within the family.

1.2 EXPLOITING THE HOST-GUEST RELATIONSHIP

A related concern: MLM participants typically pitch their products inside potential customers' homes. If you invite the Avon lady (whom you may know personally) into your home, you naturally will feel that you need to be a good host. Host should be polite. The feeling that you should feed the "guest" when ofcourse, this guest is not your usual guest. A "guest" does not come into your house and then try to sell you something. MLMs blur the line between the social setting and the selling setup. What the guest wants to receive is the host's order for product and money and/or a commitment to join the MLM. Since the host is accustomed to being responsive, this situation easily can be exploited by the MLM participant. This possibility, though, is not one that MLMs either warn about or guard against. On the contrary, MLMs advocate getting inside people's homes in order to make the sale.

1.3 APPEALING TO GREED

Prospects are encouraged to dream and to envision themselves earning millions of dollars, living in large houses, driving expensive cars. Indeed, MLMs circulate tales of people who have been wildly successful using their techniques. Success is always measured in purely material terms. These "success stories" may not be good parents or citizens, but they do drive luxury cars and wear costly clothing.

2.0 INTRODUCTION TO AMWAY

The Year was 1959, when Rich DeVos founded Amway Corp. with his longtime friend and partner, the late Jay Van Andel. Amway now operates in more than 80 countries and territories around the world, and enables people to own independent businesses. The AMWAY business model is based on the AMWAY Business Owner Compensation Plan – a low-risk, low-cost business opportunity that is open to everyone. An AMWAY business rewards for selling products and for sponsoring others who do the same. In this business one can earn income from:

- Retail profit on product to customers. (Retail margins on health, beauty, and home care products average about 29% when these products are sold at Suggested Retail price.)
- Monthly performance bonuses ranging from 3% to 25% of business volume, depending on monthly productivity.
- Monthly and annual leadership bonus & cash awards with business incentives based on group performance.

Are you working towards a better life for you and your family? Are you in control of your future? Are you getting the rewards your hard work deserves? Your life doesn't have to be a trade-off between making the money you need and having the flexibility and time to live your life to the fullest. The Amway Sales and

Marketing Plan put you in control, allowing you the flexibility to work where and when you want, giving you time for family and friends as well as the opportunity to earn a good income. It adapts easily to your needs and ambitions, and grows with them, offering you all the personal support and assistance you require to become the Business Owner you want to be. To start the Amway Business one needs to buy the Amway Business Kit and be sponsored in the business by an already existing Amway Business Owner. Despite what you may have heard, starting an Amway business doesn't involve handing over large amounts of cash. With your efforts and our knowledge, the Amway opportunity can become everything from a means of earning a little extra cash to building an international business. Where do you want to go? The Amway Sales and Marketing Plan is a low risk, low start-up cost business opportunity that is open to everyone. It allows you to build your business through retailing products and sponsoring other people who, in turn, can retail products and offer the business opportunity to others. By passing your sales and marketing knowledge to your developing team, you not only build your own business network but also enable others to build one of their own. The Amway Sales and Marketing Plan has been operating for over 40 years and is available in over 80 countries and territories around the globe. The core of the Amway Sales and Marketing Plan's income opportunity is the sale of quality AMWAY products to retail customers. As your Amway business grows, the rewards you earn grow in proportion. The Amway Sales and Marketing Plan do not compensate anybody for simply recruiting others as Amway Business Owners.

3.0 INTRODUCTION TO AVON (THE COMPANY FOR WOMEN)

Avon is the company that invented the direct selling/network marketing industries. Founded by David H. McConnell as California Perfume Company, Avon has since grown to an international organization with more than 5 million representatives worldwide. Company is working more than 120 years. It was the company's first sales employee, Mrs. P.F.E. Albee, who pioneered the direct sales. The company's business model offered women a chance to earn their own money in an era where the vast majority of women couldn't find work outside the home. Avon aggressively added new product lines to target additional market niche including upscale jewellery, a youth line called mark, and clothing. Avon has also partnered with existing brand names like Curves and Liiv Botanicals in arrangements that are beneficial for both the brands. Today Avon isn't cosmetics, fragrance and skin care company so much as it is a mall where each store's content is availability by direct sales. Avon is internationally known as corporate sponsor of women's charities. Avon's Compensation Plan stresses product sales over recruitment. The plan is very generous with commissions, with the potential to earn up to 50% depending on the size of each order placed. In addition, representatives can "jump start" their Avon businesses by becoming Leadership Representatives and recruiting others as company representatives. Leadership Representatives earn commissions on the earnings of up to a 3-member downline. The company also pays commissions on Internet sales made through its representatives' personal websites.

4.0 DIFFERENCE BETWEEN AMWAY & AVON

The differences between Avon and Amway are not only in the sales method but also the distribution of profits. Avon uses a one-leveled method, in which the income of sales personnel depends on the sales volume. Amway, however, takes the multi-leveled way. The sales people make money not only from sales volume, but also gain commissions from the achievement of the sales people on the lower levels. At times such methods could easily become the notorious 'pyramid sales,' when sales people only focus on developing lower level representatives rather than improving their own sales achievement. But from consumer point of view Amway representatives will offer more direct service to its customers. However it is also seen that too strict control over the selling mode would hinder the development of direct selling, which has many advantages over traditional retail methods, due to the lower costs and more direct service. Again the perceived difference has to do with the company's business model, they are all MLM companies, which has more to do with the products themselves and the way the companies choose to execute that strategy. Amway is perceived as a cult because it acts like one, trying to portray itself more as a lifestyle than a business opportunity. However Avon works with bit more class, and sells reasonably good quality products with a narrow focus. Distributors for Amway tend to concentrate on recruiting rather than on retail sales. The compensation plans promises huge earnings for those who have a large network of distributors under them, simply selling the product is not very lucrative. Contrastingly, when people are called for Avon party they are not surprised with anything that fosters discomfort. People who decide to sell Avon are actually committed to sell the product. Avon promotes itself as a company which makes its customers to earn something extra on the side.

5.0 LITERATURE REVIEW

According to (Bloch, 1996) people promoting multilevel marketing praise it as an opportunity of a lifetime with no catch. Claims that there is indeed a serious catch: the conventional process of promoting this so-called opportunity to friends and virtually everyone else in someone's circle of acquaintance is, for the most part, unacceptable in western society. Maintains that truly determined sellers may well make money, but most will not, capitulating rather in the face of rejection ranging from disinterest to serious disapproval and resentment of the matter having been raised at all. (Msweli & Adrian Sargeant, 2001) indicated that a number of the characteristics of NWM organisations, and those of the individual distributors themselves, could offer considerable utility in allowing NWM organisations to predict the duration of the relationship that they might expect to develop with a particular distributor. Observation by (Palmer, 1996) suggested that there has been considerable recent interest in evolving forms of network organizations, and notes the suggestion that organizations are developing increasingly fuzzy external boundaries as ongoing relationships with external subcontractors are developed. Findings of a research by (Salciuviene et al., 2011) suggested that trust, locus of control and shared values are moderated by channel commitment of the downstream channel members. Findings of a Study by (Hillebrand & Biemans, 2011) suggested that firms are aware of the importance of downstream customers, but frequently fail to establish effective relationships with them, further they also identified several barriers that hamper an orientation on downstream customers and shows how firms may deal with these barriers. According to (Berman & Thelen, 2004) A well-integrated multi-channel format enables consumers to examine goods at one channel, buy them at another channel, and finally pick them up at a third channel. Multichannel retailing offers synergies, as it can result in an increased customer base, added revenue, and higher market share. Research by (Daryl Koehn, 2001) revealed that Pyramid schemes were the number one type of internet fraud in 1996, and the fourth most common form of internet fraud in 1997, also MLMs pose some unique ethical issues, issues that are not easy to address or resolve. Value equity and brand equity respectively have significant effects on customer acquisition and customer retention. Customer acquisition has a significant "feedback" effect on value equity, and relationship equity affects brand equity positively (Chang & Tseng, 2005). Trust is relevant but not in itself a sufficient condition for the development and sustaining of buyer-supplier relationships. The objective rationality requires that business relationships are centered on organizational needs and benefits which necessitate the rational standard of interorganizational reliance (Jiang et al., 2010). A study on customer supplier relationship by (Laequuddin & Sardana, 2010) revealed that the trust focus on partner's characteristics such as benevolence, honesty, reliability, credibility, integrity, contracts, agreements etc., in the context of B2B relationship these perspectives can only help the partners in evaluating the other partner as trust worthy. Once the partners engage in the relationship the orientation will change towards perspectives of rational risk.

6.0 RESEARCH METHODOLOGY

6.1 OBJECTIVE OF STUDY

MAIN OBJECTIVE

To study the awareness of people about multi level marketing (networking) and also about their response about Avon and Amway (networking company)

6.2 SUB OBJECTIVES

- To create the awareness about multi level marketing.
- To know the level of awareness about various networking companies.

7.0 JUSTIFICATION OF THE STUDY

The study attempts to identify the role of networking in human life, which would help them to take the decision that they should invest in networking or not. Some people thought that the networking companies are fraud and are just to make their own profit and nothing to do with their agents and customers. The study also identifies the attitudes of the customer towards such companies. The scope of this study is very wide with the help of it we will be able to know the investing pattern of people. This will also help in spreading awareness among customers about networking companies.

7.1 RESEARCH DESIGN

The research design of this project is Descriptive in nature.

7.2 DATA COLLECTION

➤ **Secondary data like** Books, magazines, Reports, website have been used for the purpose of this research.

7.3 DATA COLLECTION

100 Questionnaire are being framed for this research, taking into consideration the various aspects.

7.4 SAMPLE AND SAMPLING DESIGN

A random sample of 100 respondents was selected for research purpose. The sample was drawn from Haryana. After scrutinizing the filled questionnaires, 90% of respondents said that they know about multi-level marketing whereas 10% respondents didn't even understand this word.

7.5 HYPOTHESIS

Following Hypothetical assumptions has been used:

1H₀: There is no significant difference between the satisfaction and experience for Avon and Amway.

2H₀: There is no significant difference between the money spent by respondents on product of Avon and Amway.

3H₀: There is no significant difference between the usage period of Avon and Amway.

8.0 DATA ANALYSIS TECHNIQUES

The statistical tools used for data analysis includes Bar diagrams, & Chi-square test. Chi-square test is applied to test the goodness of fit, to verify the distribution of observed data with assumed theoretical distribution. Therefore it is a measure to study the divergence of actual and expected frequencies.

9.0 LIMITATIONS

The Respondents were sometimes unable to spend much time for filling up the, questionnaire. So, the chances for bias in the respondents answer were on the higher side. Lack of time is also a reason of some in comprehensiveness. There is possibility of sampling errors in the study. The responses obtained might be inaccurate or biased, inadvertently or deliberately. Due to limited time, in depth study was not possible.

10.0 DATA ANALYSIS

90% of respondents have positive response that they know about multi-level marketing whereas 10% deny that they don't know about multi-level marketing. So, awareness about multi-level marketing among people is good but this concept should be known to everyone. 55% know about Avon Company whereas 30% knows Oriflame, 10% Amway and only 5% people have knowledge about all the mentioned companies. So, the conclusion is that the awareness about Avon is highest among all of the mentioned companies. 69% of respondents have preference for Avon over Amway and 31% has preference for Amway over Avon. This concludes that people have more preference to Avon. 54% of respondents use Avon whereas only 27% uses Amway and there are only 19% uses both. 73% of respondents prefer Avon, but only 27% has good brand value for Amway. So, the conclusion is that brand value of Avon is more than Amway. 52% respondents prefer Avon products, 10% Amway, 27% Oriflame and 9% Modicare and 2% others. So, the usage of product of Avon is maximum. 43% respondents are highly satisfied by the product and experience of Avon and 29% respond that product are good 15% says that product are average and 13% says that product are bad. 49% respondents are highly satisfied by the product and experience of Amway and 23% respond that product is good 13% says that product is average and 15% says that product is bad. 25% spent money between Rs. 0-10,000, 23% Rs.10,000-15,000 whereas 5% responded to Rs.20,000 and above. 56% spent money between Rs. 0-10,000, 10% Rs.10,000-15,000 whereas none responded to Rs.20,000 and above. 10% of respondents says that there is no risk with networking, 14% says 0-30% and 26% responds that there is more than 90% risk in investing money in networking. 74% of respondents are satisfied with Avon products. This clears that maximum number of person are satisfied with Avon products. 67% of people says that their neighbour prefer Avon over Amway. 3% of people have never used the Avon products while 14% is using Avon from last 1-2 year and 16% are using Avon from more than 3years. 22% of people have never used the Amway products while 29% is using Amway from last 1-2 year and 9% are using Amway from more than 3year.

10.1 STATISTICAL ANALYSIS

Test of Hypothesis

Statistical (Chi-Square) Analysis

TABLE 1

| S.NO. | Hypothesis | Calculated Vale of chi sq | Tabulated value of chi sq. | D.O.F. | Status |
|-------|---|---------------------------|----------------------------|--------|----------|
| 1 | There is no significant difference between the satisfaction and experience for Avon and Amway. | 54.72 | 9.01 | 3 | Rejected |
| 2 | There is no significant difference between the money spent by respondents on product of Avon and Amway. | 84.72 | 9.01 | 3 | Rejected |
| 3 | There is no significant difference between the using period of Avon and Amway. | 33.48 | 6.26 | 4 | Rejected |

Interpretation 1:- 43% of respondents responses that they are highly satisfied using Avon 29% are satisfied using Avon product and 15% says that they are average satisfied by Avon whereas 49% of respondents responses that they are highly satisfied by Amway and 23% are satisfied and 13% are average satisfied using Amway and this is also supported by CHI-SQUARE test.

Interpretation 2:- 25% of respondents responses that they spent Rs. 0-10,000 whereas 47% respondents says they spent 15,000-20,000 whereas only 56% of respondents responses that they spent Rs. 0-15000 on Amway and 34% spent Rs. 15,000-20,000 and this is also supported by CHI-SQUARE test.

Interpretation 3:- 3% of respondents responses that they had never used Avon product and 56% says they are using Avon product from last 2-3 year and 16% are using them from more than 3years whereas 22% of respondents responses that they have never used Amway product and 13% has used the product of AMWAY from last 2-3 years and only 9% is using them for more than 3years this is also supported by CHI-SQUARE test.

11.0 FINDINGS

In working with clients it was seen that payment services underperforms or do not provide certain capabilities sought by clients. These include:

- Majority of respondent's i.e. 90% know about MLM whereas 10% doesn't know about networking.
- Majority 55% know about Avon Company whereas 30% knows Oriflame, 10% Amway and only 5% people have knowledge about all the mentioned companies.
- Majority 54% of respondents uses Avon whereas only 27% uses Amway and there are only 19% uses both.
- 73% of respondents prefer Avon But only 27% has good brand value for Amway. So, the conclusion is that brand value of Avon is more than Amway.

- 43% respondents are highly satisfied by the product and experience of Avon and 29% respond that product are good 15% says that product are average and 13% says that product are bad.

12.0 SUGGESTIONS

- Networking companies should take initiative in providing awareness amongst the people about the multi-level marketing.
- Networking companies should take initiative in providing awareness amongst the people about the products available.
- Multi-level marketing is still not recognized as a good business due to risk factor.
- Company should increase the commission they are giving to agents.
- Proper dealings with clients need to be taken care of.
- A major problem faced by customer is the knowledge about the plan given by networking company as they are very tough to understand.
- Agents and customers should be well informed about the benefits by investing in networking company.

13.0 CONCLUSION

As a project-based enterprise, Networking is very old and highly popular concept. Most of the people are aware about word "Networking" but they get confused when they listen to word "Multi-Level Marketing". There is a need of creating more awareness about networking in people. Person uses the product but they are not aware about the companies and moreover person who know about the companies fails to understand the pains of companies, commission which will be given to them for selling the product and advantage of being in branches i.e. networking or multi level marketing. From the study it may be concluded that people think that most of the networking companies are fraud and there is no use of investing in such type of networking companies. Also the risks associated with these companies are very high as concluded by study (thinking of respondents). There is a need that companies should increase their product line.

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