

Multilevel marketing in india assignment

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Multilevel Marketing in India | | Project Area: Understanding the Multilevel Marketing in India with focus on business model, market saturation, pyramid structure and the various criticisms associated with MLM in India. | | Course:| Marketing Management II| Date of Submission:| 8th January, 2012| Project Supervisor:| Prof. Rajeev Roy| Manish Kumar Swain| U111087| Rupmalini Sahu| U111097| Savneet Kalra| U111103| Smruti Sankar Lenka| U111111| Swati Agrawal| U111114| Submitted by: PGDM (BM) – I (Section B) Group no.

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ACKNOWLEDGEMENT We would like to express our heartfelt gratitude to Mr. Rajeev Roy, Faculty ??? Marketing Management for giving us an opportunity to apply and understand our marketing concepts and understand the various methods of marketing goods and services by taking a practical example and analyzing the various strategies applicable in a real scenario. We would also

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like to thank the survey respondents and business associates of Amway and Tupperware who interacted with us and gave us their valuable inputs without which this report would have never been complete.

EXECUTIVE SUMMARY Multi-level Marketing is coming of age in India. There are more than 30 players and more than 1 of them have presence across several nations. Some of the major MLM firms operating in India are Amway, Tupperware, Modicare, Oriflame and Unilever. Amway has a unique business model and money and/or incentives can be earned through the methods of Retail Mark up/Mark down, Leadership Bonus, Volume rewards and higher awards and incentives. Point Value (PV) and Business Value (BV) System is adopted by Amway to award its distributors and incentivise them to work towards higher targets.

Product offerings of Amway, Modicare and Tupperware are represented in Length, breadth and depth to understand various offerings. Between these 3 MLM Companies, Amway has the widest range of offerings and it has been increasing its product length continually. A survey was conducted with over 80 customers as respondents to understand the customer preferences and perceptions about products offered by these MLM Companies. The product related questions touched several aspects like quality, ease of availability, price, discount, lead time, reliability, performance, knowledge of distributor and packaging.

The various responses were collected in a likert scale and tabulated in pie charts for better understanding. Furthermore Traditional Distribution structure and MLM structure is being distinguished. The absence of

wholesaler and retailer adds extra cushion for margins for the MLM Companies. MLM Organisation and Pyramid structure is being distinguished on basis of business models and legal aspects. Several other facets of an MLM Organisation such as Low Barriers to Entry, Sales Focus of Distributors, and Flexible Hours and Leveraged income are being discussed in detail.

Moreover, Indian Direct Selling Association (IDSA) and the advantages of being a member are clearly defined. IDSA is a regulatory framework that works in close association with pioneering policy makers of Government of India to ensure ethical business practice in Direct Selling Spheres. The report concludes with annexure of excerpts from interaction with Amway and Oriflame Business Owners, Survey conducted and the Results obtained.

INTRODUCTION The Multi-Level Marketing is a pioneering marketing scheme that has been taken up by several companies.

It addresses to a wide range of customers with a personal touch and has been proved to be a very efficient and effective marketing technique.

However, it has been misused by some deceptive organisations and brought negative vibes to the MLM Industry. The supervision and motivation of direct sales distributors is an important key helping the bottom-line of this Industry.

India has witnessed several facets of the MLM Industry and there have been several local, national and multi-national players trying to have the biggest share in the pie. This report has the following focus: * Understanding MLM and Its business model Market Saturation and Pyramid Structure * Criticism surrounding several MLM Companies * Survey ??? Questionnaires * Product users * Discussions ??? Interactive * Distributors * Company representatives

MULTILEVEL COMPANIES OPERATING IN INDIA Many Multilevel companies are
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currently operating in India. Given below is a list of few companies who have managed to grab attention:- 1. Amway Global 2. Avon Products 3. Modicare 4. Oriflame 5. Tupperware BUSINESS MODEL OF AMWAY & PV SYSTEM

Amway Business owners or distributors have several ways to earn money from their relation with Amway.

Money and Incentives can be earned as per below mentioned methods: 1. Retail Markup 2. Leadership Bonus 3. Volume rewards 4. Higher awards and incentives RETAIL MARKUP: Amway works out a mix of Markup and Markdown Model to sustain its revenues. The distributor purchases Amway Products at base wholesale price from Amway, Then a suitable Markup is added by the Distributor suiting his/her needs and is directly sold to the consumer. The distributors otherwise called as Amway Business Owners can sell the Amway products at whichever price band they wish. Amway recommends a 20% to 35% markup on base wholesale price.

This has certain exceptions though, because certain catalogue products have a fixed MRP attached to them. In such cases the distributor receives a certain fixed mark down margin from Amway. VOLUME REBATES: Amway integrates certain traditional distribution chain features to its multi-level marketing scheme to allow the Amway business owners to earn money. As in traditional distribution chain, the wholesale price is linked to the Volume of good purchased. The unit price becomes cheaper as the distributor purchases from Amway and thus potential Markup increases.

Amway follows a PV System which is used for this purpose. All distributors buy their initial purchase at the same price and at the month end total

volume of products purchased by the distributor are added up and volume discount is paid as a rebate according to the PV System in the following month. The volume discount is available across all product lines and offerings. Every Product is allocated a Point Value (PV) and a Business Value (BV). The PV decides on the rebate percentage that can be availed by the distributor. The business value is dependent on the manufacturing of the product.

BV is close to wholesale price when the product is manufactured by Amway. Rebate paid is equal to PV Rebate multiplied with the Total BV Value. The PV and Rebate Relation in India can be gauged from the below table: PV| Rebate (% of BV)| 10, 000+| 21%| 7, 000| 18%| 4, 000| 15%| 2, 000| 12%| 1, 000| 9%| 300| 6%| INCREASING SALES VOLUME: A Distributor working in association with Amway has 3 avenues for Sales Volume: 1. Products bought for personal use 2. Products sold to personal clients 3. Products sold to sponsors whom they introduce to the business.

An Amway business Owner or distributor can increase his/her sales volume by increasing any of the fore mentioned aspect. Generally, products sold to other down line sponsors attract a small margin but the sales volume makes up for the decrease in margin. Thus, this increases the distributor's propensity to add new down line sponsors who can buy products from him.

4% LEADERSHIP BONUSES: Amway has a unique method of providing incentives to people with outstanding sales volume. Amway pays a 4% leadership bonus to any distributor who reaches or exceeds the top of volume rebate sale in a down line.

The distributor who achieves this stint becomes a direct distributor for Amway and constitutes a 'break-away leg' but the original initiator still gets paid a part of the bonus for having achieved this. The only condition for the up line distributor to gain the bonus is by having a certain amount of volume (12%-15%) apart from the 'break-away leg'. If an up line distributor doesn't have the qualifying volume, then some or the entire bonus is passed to the next hierarchical up line member who qualifies for the same.

There are various levels of bonus schemes such as: * Ruby bonus * Depth bonus * Pearl bonus * Emerald bonus * Diamond bonus * Diamond Plus bonus

PRODUCT OFFERINGS BY AMWAY, MODICARE AND TUPPERWARE

Product Range of Tupperware: Product Range of Amway: Product Range of Modicare: SURVEY RESULTS

As per the responses we received from our survey, we got the following results: * 94% of the respondents said that they looked for Quality of the product * Of these, 17% found quality indispensable in a product, while other 58% took it as a prerequisite In terms of Ease of availability, 79% of the customers considered it important when looking for a product * Of these, 37% said that it was a prerequisite, while for a large percent (29%), ease of availability was indispensable * When asked about the price, 58% of the customers thought it to be an important factor when making a purchase * As seen from the figures received, price is a prerequisite and indispensable for 17% each while 25% found it a considerable decisive factor 44% of the respondents said that they looked for discounts when purchasing products * But a majority of 33% said that it was not a decisive factor and just a small 8% said that discounts were indispensable for a purchase * Reliability was stated as an important factor in a purchase by

85% of the respondents * Only 21% thought reliability to be indispensable and another 26% said it was a pre requisite for them before any purchase * Lead time was considered important by 80% of the respondents * A huge 52% said it was just a considerable factor and they may go ahead with a purchase even if they didn't get an expected lead time 72% said that they looked for availability of required assortments when making a purchase * But only 30% said that it was either indispensable or a pre requisite for a purchase and they would go ahead with a purchase even if the required assortments were not available * Performance was said to be important by 88% of the customers * A whopping 50% said it was a pre requisite before they made any purchase and another 17% found it indispensable factor * 83% said that knowledge of the distributor was important for them before they made any purchase * A big percent of 42 found it a considerable actor and for another 32%, it was a prerequisite * A big figure of 94% represented the individuals who said that packaging was an important factor for them when they made any purchase * For 48%, it was a prerequisite and indispensable for another 23% * A significant 83% of the customers said that they considered response time of enquiries to be an important factor when they made any purchase * 10% said that it was an indispensable factor for them while another 28% said it was a prerequisite for them

UNDERSTANDING MLM AND ITS BUSINESS MODEL TRADITIONAL DISTRIBUTION CHAIN

The Traditional distribution Chain, as shown in the diagram consists of Manufacturer who sources the raw materials and other services and manufactures the goods that is to be sold. The Wholesaler is present region

wise as per the demand of the product and it is warehoused by the warehouse before it can move further down the distribution chain. Then the advertiser and retailer facilitate further movement and finally the goods reach the customer. In this long process, every intermediary wants his share from the pie, thus the customer ends up paying a hefty amount for the goods he consumes.

MLM DISTRIBUTION CHAIN On the contrary, The MLM Distribution chain has only 3 levels viz. , The Manufacturer, Distributor and Customer. This structure reduces the commissions and percentage margins that were preciously eaten away by the retailers, wholesalers, etc. The saved money is thus distributed among The Independent Distributors who can enjoy a large margin by selling quite a few products. He can also enjoy margins earned by people laying below him n the chain. **OTHER FACETS** * Low Barriers to Entry MLM is a very unrestricted industry to get into.

It doesn't have any strict access requirements. One doesn't need a college degree, or any particular experience to join a network marketer and start working. MLM Companies have low start up costs. This includes the initial registration or subscription amount one has to pay before one becomes a part of the pyramid structure. The amount required might be of the following types: * Initial Subscription or Registration Charges * Minimum purchase of goods offered by the MLM Company at a discount rate * Combination of both the above

There are various MLM Companies operating in India, One can handpick and choose the one that suits his/her needs. As compared to the small franchisee

models or business setups the amount required to join a MLM Venture is minimal. * Sales Focus of Distributors The Independent distributors have a single focus attached to their schedules, Sales. The Manufacturing, Quality conformance and delivery of the products is taken care by the MLM Organisation. This saves a lot of time on behalf of the distributor who can devote his entire available time to make sales happen. * Flexible Hours

The work hours one can devote are completely at one's disposal. Persons having full time employment might choose to work on weekends or evenings to generate sales revenue for the parent MLM Organisation. One can choose to work part-time or work from home if one wishes. * Leveraged Income “Leveraged” means one receives a continuing benefit from a single initial effort. As long as one chooses one's down line carefully, one can earn certain variable income depending on the motivation of the down line distributors without putting much of a conscious effort to sale the products.

MARKET SATURATION AND PYRAMID STRUCTURE: Multilevel Marketing Plan is essentially different from the pyramid sche which is prevalent in various organisations. The pyramid scheme is not allowed by several governments including the US which has strict regulations governing the direct selling policies of the country. Given below is a list of difference between Multilevel Marketing and Pyramid schemes: | MULTILEVEL MARKETING PLAN| PYRAMID SCHEME| Business Focus| Sales of products and services to end-users (NOT other distributors) | Recruiting new members| Profits|

Profits derived by sales of products and services by the distributor. Marginal percentage of income from sales by down line recruits. | Primarily

membership fees paid by new recruits or “ bonuses” for meeting recruitment goals. | Products or Services for Sale| Household goods or services competitively priced and that consumers typically use in everyday life. | ?? Merchandise is typically priced well above comparable products sold in retail stores. Sub-Standard Product Quality. | Start-up Costs| Low or none at all. | Substantial recurring membership fees. Expensive training or advertising materials. Employee/ customer References | Eager to provide references who provide honest evaluations of the viability of the MLM plan and the work necessary to succeed. | Unwilling and/or unable to provide references. | Sales Pitch| Provides detailed information about the work involved. Offers no promise of easy riches. Does not use high-pressure sales tactics. | Involves promises of large profits with minimal work. | Merchandise Buy-Back| Available. Unsold Merchandise Buy back at 90% or more of purchase price. | Either Unavailable or Available at marginal price of purchase. | Profit Chances|

Profits are based on time and effort devoted to selling goods or services to consumers. | A Bulk of members loses money. | Bottom Line| It's a legal business opportunity that may or may not be a good fit for everyone. | Illegal. | INDIAN DIRECT SELLING ASSOCIATION (IDSA) The Indian Direct Selling Association is a body formed in 1996 by three major Direct Selling Organisations, namely Amway, Avon and Oriflame. Currently the MD of Oriflame cosmetics is the chairperson of this association. There are over a million direct sales people who fall under this association and it's been growing increasingly every day.

This association is autonomous and self regulatory for the direct selling Indian Industry. This association serves the purpose of a common purpose vehicle to address the industry and policy makers of the Government to facilitate the Industry. It also aids in advisory and consulting activities. It has over 20 affiliated members. Members: The Members of IDSA receive a plethora of benefits ; services to improve their business and maintain a healthy structure. The Members can use the IDSA Association logo which is approved by WFDSA ??? World federation of direct selling association.

This ensures products and services of the highest quality is being rendered to the customer. This also works as an ethical business practice guarantee for consumers and policymakers. CONCLUSION Multi level Marketing has grown several folds since its inception in India. However, this does not limit the market size and target group given the vast population. Also, there have been several local and multi-national players competing on a level playing field to garner more market share. This makes it a competitive Industry. Moreover, the product offerings have been increasing in length, width and depth.

Keeping the rural population in mind, Agricultural products of the highest quality are also being included in the product basket. In this era of globalisation and privatisation, Criticism has been a part of several major sectors and industries. Competition defines any sector but still the need of the hour is to make sustainable growth possible by incorporating the right strategies in place and working towards the long term goal. MLM surely has a better days to see and flourishing business to follow. This can be aided by

doing further R; D, preferably in India and coming up with creative solutions addressing specific problems.

As a business partner, it is always advisable to check the roots before hanging on to a branch of any MLM Company. The key lies in understanding the business model and being completely sure of the Organisation before making any investments. MLM in India is yet to spread its wings and soar with flying colours but that day is not far. ANNEXURE 1: Interview with Amway Distributor Excerpts from the interaction with Amway Distributor Mr. Sambhu. He works part time with Amway and owns 2 ' Archies' Gift Shop for full time Earnings. Question: How long have you been associated with Amway? Why Amway?

Answer: I have been associated with Amway for more than 7 Years and I run it from my home. Amway was the only MLM firm that looked promising back then and I decided to work part time for the same. Question: What is your monthly income from Amway? Answer: I earn about Rs. 7000 from Amway business and it varies every month. Mostly it is repeat purchase by neighbours and business associates. The time demanded for growth in MLM business is very high. Question: Does Amway charge you for training and seminars offered? Answer: No. Amway does not charge me anything for training seminars. They organise the seminar once in every 3-4 months.

However, there is a renewal charge that is being charged depending on the plan selected in the beginning. It may be annual or once in 3 years.

Question: Why Amway? Answer: Amway has been one of the consistent MLM players with a turnover of over US\$ 5 Billion. It takes good care of its

business partners and representatives. Over the years I have seen people getting involved and earning their full time income from Amway. Recently, they started a new scheme in which Amway offered free business partnership. All new representatives who joined under this scheme were offered products worth their entire registration amount.

Moreover, the office of Amway has been relocated from Shahid Nagar to Chandrasekharapur. Thus, it's within arm's reach for any issues and product queries. Question: What is this PV and BV System of Business that Amway follows? Answer: Amway has 2 point systems. First one is PV ??? Point Value System, Second is BV ??? Business Value System. There is high correlation between both PV and BV. Basically BV is representative of total business volume or sales figures achieved over a certain period and PV is allotted product wise and it decides the rebate that a distributor would get on the purchase for next month.

Question: Are you aware of any other MLM Chains operant in Bhubaneswar?

Answer: Yes. Initially Modicare started with a competitive spirit in India and eventually it came to Bhubaneswar but now the business prospects of being associated with Modicare is very minimal. Also, RCM and Tupperware are doing good business. Question: What are the products on offer? Which is the best seller? Answer: There is a huge product line that Amway offers. Mostly it includes Nutrition ; Wellness, Cosmetics, Home Care, Personal Care, Catalogue Products and Agricultural Products. The bestseller varies from season to season.

Mostly, it is 'Nutrilite' which gets superfluously sold. Then there is the 'Artistry' range of personal care products which could be considered as a very good product range. Also, At times we are informed about certain seasonal products. Seasonal products include apparel and accessories which are sold in Heavy Discount in periods like Diwali etc. Also there are certain gift products that are sold profusely. Question: What is your long term future prospects s being associated with Amway? Answer: I have seen several people growing up the ladder in Amway. I wish to do the same and become a diamond or platinum member one day.

After that, I could shift Amway from my part time business to full time business. Question: Is the status of being a platinum or gold member permanent? Answer: No, The membership is valid for few months and every month they are reviewed to have achieved a certain BV Value for Amway. If the BV Value falls due to some reasons, they are demoted to the preceding hierarchy level until they again achieve the sales numbers. This is a process of consistent and continuously generating business and it keeps the spirits high. Question: What do you think about MLM Frauds that have been made popular by the Media?

Answer: MLM frauds have been happening for a long time. There have been instances of several companies trying to dupe money from the commoner's pocket by promising lucrative returns on sales and these companies vanish after a short while. The trick is to recognise the Company before starting business. There is a transparency level associated with every organisation and one should perceive it well before joining such organisation.

Organisations like Amway have been operating since 1960's and is a pioneer
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in this field. They own R; D labs and each product is of assure quality to ensure customer satisfaction.

There is no price fixing as in case of several MLM Distributors. Question: Have any steps been taken to avoid such frauds? Answer: Yes. There is IDSA ??? Indian Direct Selling Association which is formed by the major multi level marketing firms in India. They ensure that frauds are avoided. All major MLM firms like Amway, Unilever, and Oriflame are a part of this Association.

ANNEXURE 2: Interview with Oriflame member Oriflame is one of the fastest growing cosmetics companies' in the direct marketing category. With presence in more than 60 countries, it is the market leader in half of them.

It offers a wide range of high-quality beauty products as well as a unique opportunity to join their sales force and start your own business. On an interaction with Mrs. Sanjukta Sahoo, member of Oriflame community, we got a bird's eye view of the business model and how things work at the ground level. Here is an excerpt from the interview: 1. How is the business model like? Answer: It's a very transparent system that is followed in Oriflame. A person can become the member through another member by paying a nominal fee of Rs 299. The people through which we join are termed ' Up line'. The business model is in form of a chain.

A member has to join a member on his left and one on his right to extend the chain. 2. Is the membership for lifetime? Answer: The member has to buy product worth Rs 1250 each month, else the membership gets cancelled. 3. What are the incentives you derive from being a member? Answer: There are various incentives are the company offers from time to time. On every

product that we sell, we get 20% of it as our share. At times the company offers discount to consumers. 4. What are the long-term benefits? Answer: In long term, our purchase earns us business points. On every 100bp earned we get a voucher of Rs 200. 1bp equals Rs45.

On every 150bp we get a product in half of its price. Apart from this, over the years, on basis of the no. of down line under us we get promoted to different level. The highest being the diamond director with commission over Rs 1 lakh a month. Then come the gold and silver director. The benefits vary at each level. 5. What are the marketing tactics used to improve the brand's visibility? Answer: Especially it's done through word of mouth. For e. g. , I run a beauty salon, so I tend to refer all the good products to my customers. As the products are of high quality, the customers are willing to pay a premium price for the same.

ANNEXURE 3: Questionnaire used for Customers Section ??? I (Personal

Details) 1. Name : 2. Sex: * Male * Female 3. Age Group: * 0-18 * 19-30 * 31-45 * 46-60 * More than 60 4. Marital Status: * Married * Unmarried 5.

Profession: * Unemployed * Student * Salaried Employee * Self

Employed/Business * Daily Wage labour * Others (Please specify)

_____ 6. Income per month (If unemployed, monthly Household

Income): * 0-5000 * 5001-10000 * 10001-15000 * 15001-20000 * 20001-

25000 * More than 25000 Section ??? II 1. Do you know about any multi level

marketers in India (for example, Amway, Modicare etc.)? * Yes * No . If yes,

have you ever used their products? * Yes * No 3. How did you find out about

the product or the organisation? * Family and Friends * Internet * TV

Commercials * Distributor * Others, Please Mention _____ 4. What

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category of products have you used? * Personal care * Electricals * Apparel and accessories * Gift * Others, Please Mention _____

5. Have you done multiple purchases for the same product/s? * Yes * No 6. How would you rate your experience with the product on the following parameters?

(Rate on a scale of 1-5, 1 being the lowest and 5 being the highest score)

Parameters| 1| 2| 3| 4| 5|

Quality of Product| | | | | Ease of Availability| | | | | Price| | | | | Discounts| |

| | | | Reliability| | | | | Lead times from order to delivery| | | | | Availability

of required assortments| | | | | Performance| | | | | Knowledge of distributor

about product features| | | | | Packaging| | | | | Response time of your

enquiries| | | | | 7. Would you recommend the same product to your friends,

family members and other social circles? * Yes 1. No 8. According to you,

what was the most negative aspect of the product? * Product Features *

Price * Quality * Packaging Distributor knowledge and responsiveness 9.

Have you ever been encouraged by the distributor to build your business by

being a member and recruiting people into down line? * Yes 2. No 10. If Yes,

Do you know about the high subscription charges and/or minimum volume

requirements that must be bought on subscription in order to advance to

higher levels in the hierarchy? * Yes 3. No ANNEXURE 4: Survey Data

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