

# Consumer behavior: multi level marketing



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Consumer is considered as the core element which decides the exiting of a business firm. They are the ones who buy and use products and services (Longman Dictionary of Contemporary English). Understanding consumer behaviors, consumer buying process and factors affect consumer buying behavior which may bring number of benefits is one of the most important tasks confronting every competing business. That is why companies spend such a lot of money in understanding behaviors of their consumers.

This study aims to identify perceptions and key factors affecting to consumer behavior towards multi-level marketing companies and their products so that marketers can adapt and improve their marketing campaigns and marketing strategies to more effectively reach the consumer.

## **PROBLEM STATEMENT**

Direct selling business has a history of dozens of years in the world and nearly ten years of operation in Vietnam market and more than four years from the issuance of Law on Competition (2004) and Decree 110 on Multi-level Marketing Management, it is still very difficult for distributors of multi-level marketing companies to sell products or to invite people to collaborate with them as an independent business owner of the company because of negative perceptions of consumers on direct selling companies and their products. This makes things to be very difficult for doing this kind of business in Vietnam.

In addition, together with the entrance of many new comers into Vietnam market in recent years, the competition in the industry becomes not as harsh as ever before.

Being recognized as born in the late 1800s when traveling salesmen created trained sales organizations with hundred of salesmen to sell various products in America, direct selling is considered as a dynamic and vibrant industry offering employment to more than 62 million independent sales representatives. According to data from World Foundation of Direct Selling Association (WFDSA), worldwide retail sales by its members accounted for more than US\$114 billion in 2007.

Although direct selling industry has a long history and obtained very good results with a great potential of growth, as consideration of many experts, it is not easy for direct selling companies to enter a new market and gain the good perception of local consumers.

In Vietnam, direct selling appeared ten years ago (in 2000) but there still are very negative perceptions of consumers on this kind of business and its products. This makes things seem to be very difficult for doing this kind of business in Vietnam.

## **RESEARCH OBJECTIVES:**

Primarily, this study aims to take a general picture of perceptions of consumer towards multi-level marketing companies and their products – in relation to the factors that effect consumers buying decision. The main problem is to find out what the most important factors consumers have in mind when buying or not buying products and/or agreeing or refusing to become a distributor of a multi-level marketing company. Specifically, the research objectives include the followings:

To define the current situation of multi-level marketing business in Vietnam;

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To identify factors that have influence on the consumer behavior towards multi-level marketing business in Vietnam;

To describe the behaviors of consumers in HCMC and Mekong Delta toward multi-level marketing;

To recommend solutions for increasing good perceptions of consumer for marketer working in multi-level marketing enterprises.

## **THE SCOPE AND LIMITATION OF RESEARCH STUDY:**

The research just focuses on studying the literature of the consumer behavior, and the survey is conducted only in Ho Chi Minh City – the economic hub of the South, and some rural areas in Mekong Delta region such as: Tien Giang, Can Tho and Ca Mau provinces which represent rural areas in the South of the country. Consumer behaviors of such regions may not represent the general behaviors of consumers nationwide.

Due to the lack of official data of multi-level marketing industry and difficulty of getting the confidential internal business data from multi-level marketing companies, the data used in this research may not be sufficient enough.

Besides, due of the limitation of time and money, the survey shall be carried out only with small sample size.

## **THE POSITION OF THE RESEARCH COMPARED TO THE AVAILABLE KNOWLEDGE AND FORMER WORKS**

Multi-level marketing or direct selling is till a very young industry in Vietnam. There is no former research or survey on this business so far. There are so many vague understandings about the industry in the perceptions of Vietnamese consumers. Hence, it is expected that this research will contribute a very first premise for further study for a general picture of multi-level marketing industry in Vietnam market.

## **THE RELEVANCE OF THE RESEARCH:**

The author of this report is now working as Mekong Delta Regional Sales Supervisor in Amway Vietnam Company Limited, a world's leading multi-level marketing company. Therefore, it is feasible for me to carry the survey, collect data and have enough information for making analysis.

## **THE RESEARCH METHODOLOGY:**

This is a combination of quantitative and qualitative research approaches, the research will access all potential sources and means to collect data and information such as: collection and synthesis of secondary data, questionnaire design and pilot survey to ensure the maximum clarity and effectiveness of the questions, face-to-face interviews using questionnaire, online survey using questionnaire and meeting with some experts or stakeholders of multi-level marketing companies.

## **CHAPTER I: LITERATURE REVIEW**

### **1. 1 Definition of consumer behavior:**

Consumer behavior is “ The study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society.”

“ The action a person takes in purchasing and using products and services, including the mental and social processes that precede and follow these actions”. The behavioral sciences help answer questions such as: why people choose one product or brand over another; how they make these choices, and how companies use this knowledge to provide value to consumers.

Belch and Belch define consumer behavior as ‘ the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires’.

### **1. 2 Consumer behavior and marketing mix:**

### **1. 3 Types of consumer decisions:**

#### **1. 3. 1 Habitual decision making:**

Habitual decision making involves no decision as such. Habitual decisions occur when there is very low involvement with the purchase and result in repeat purchasing behavior.

A completely habitual decision does not even include consideration of the “ do-not-purchase” alternative. Noticing that the product or service is needed

will cause the consumer to purchase some of the same one in the next visit to such product or service supplier. The consumer will not even consider the possibilities of not replacing the product or service or purchasing another brand.

### **1. 3. 2 Limited decision making:**

Limited decision making covers the middle ground between habitual decision making and extended decision making. In its simplest form, limited decision making is very similar to habitual decision making. No other alternative may be considered, except, possibly, a very limited examination of a “ do-not-buy” option.

Limited decision making also occurs in response to some emotional or environmental needs. Consumers may also evaluate a purchase in terms of the actual or anticipated behavior of others.

### **1. 3. 3 Extended decision making:**

Extended decision making is the response to a very high level of purchase involvement. An extensive internal and external information search is followed by a complex evaluation of multiple alternatives. After the purchase, uncertainty about its correctness is likely and a thorough evaluation of the purchase will take place.

Relatively few consumer decisions reach this extreme level of complexity. However, products such as cars, houses and personal computers are frequently purchased as a result of extended decision making.

## **1. 4 Consumer purchase decision process:**

The purchase decision process is the stages a buyer passes through in making choices about which products and services to buy which includes five stages which are: problem recognition, information search, alternative evaluation, purchase decision and post-purchase behavior.

Post-purchase behavior: Value in consumption or use

Purchase decision: Buying value

Evaluation of alternatives: Assessing value

Information search:

Seeking value

Problem recognition: Perceiving a need

### **1. 4. 1 Problem recognition:**

The consumer decision process begins with the recognition that a problem exists. The recognition of a problem is the result of a discrepancy between a desired state and an actual state which is sufficient to arouse and activate the decision process. Without recognition of a problem, there is no need for a consumer decision.

If the consumer resolves the problem by recalling one satisfactory solution and purchasing that product or service without an evaluation, this is termed habitual decision making. Many consumer purchases, particularly of frequently purchased items, such as detergents, soft drink and petrol, are of this nature. Other problems may be resolved by recalling several potential

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solutions and choosing from among them, perhaps using some additional information, such as current prices. A great many consumer purchases are the results of such limited decision making. Problems that require thorough information searches, both internal and external, the evaluation of several alternatives along several dimensions, and considerable post-purchase evaluation, result in extended decision making.

### **1. 4. 2 Information search:**

Once the problem has been recognized, an information search is undertaken to isolate an effective solution. The information search may be extensive, very brief or somewhere between.

### **1. 4. 3 Evaluation of alternatives:**

After the information has been gathered, which allows the consumer to determine and compare the relevant and feasible alternatives, the decision can be made.

### **1. 4. 4 Purchase decision**

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### **1. 4. 5 Post-purchase behavior:**

Post-purchase behavior is a process occurs after purchase or acquisition: use, evaluation, disposal and repurchase behavior. These reflect the satisfaction of the consumers relating to the usage of such product and/or service. Consumer satisfaction is influenced by product performance, the purchasing process and consumer expectations.

## **1. 5 Major factors influencing buying behavior:**

### **1. 5. 1 Internal influences:**

Perception: Perception is critical to the decision process and is also an internal phenomenon that is highly influenced by the internal influences. Perception is also influenced by external factors such as variety of groups, situations and marketing efforts.

Learning and memory: The result of learning is memory and memory also has an influence on the learning process. There are two kinds of memory which are short-term and long-term ones which relate memory to brand image and product positioning.

Motives, personality and emotion:

Motives are the forces that initiate and direct consumer behavior. Motives may be either physiologically or psychologically based. In developed countries, most consumer behavior is guided by psychological motives.

While motives direct behavior towards objectives, personality relates to characteristic patterns of behavior: personality is generally considered to reflect a consistent pattern of responses to a variety of situations, although the role played by the situation itself must also be recognized.

Emotions are the feelings or affective responses to situations, products, advertisements and so forth. They affect information processing and preferences, and are becoming of increasing interest to marketers.

Attitudes: Attitudes are formed out of the interrelationship between personal experience and lifestyle and the factors that help shape lifestyles. Attitudes  
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are composed of three components which are cognitive, affective and behavioral.

## **1. 5. 2 External influences:**

Demographics and lifestyles

The household

Reference group

Social status

Culture

Values

## **1. 6 Attitude:**

### **1. 6. 1 The three components of attitude:**

Beliefs: cognitive component of consumer attitude

Affect: emotive component of consumer attitude

Intention: behavioral intention component of consumer attitude

### **Beliefs: Cognitive component of Consumer Attitude**

A consumer belief is a psychological association between a product, brand, outlet, action, etc. and an attribute or feature (and associated benefits) of such:

Beliefs are cognitive (based on knowledge, experience, perception, etc.)

The stronger the association of features or attributes (and association benefits) with the products, brand, outlet, action, etc., the stronger the consumer's belief

Brand equity is a measure of the strength of the association in the marketplace.

### **Strategies to change consumer beliefs:**

Positioning by: product attributes, consumer benefits, intangible attributes, price, application, brand user, celebrity recognition, brand personality, product category, association with competitors country or geographic area, etc.

### **1. 6. 2 The Fishbein models:**

Affective responses to a brand consist of:

The strength or weakness of a consumer's beliefs about the brand and its attributes;

The consumer's evaluation of or feelings toward those attributes.

Where:

A = Attitude towards a brand

$B_i$  = Belief that the brand possesses attribute  $i$

$E_i$  = Evaluation or desirability of attribute  $i$

$l$  = Attribute 1, 2, ...,  $m$

## **The Fishbein Model**

## **Belief-important Model**

## **Theory of Reasoned Action**

## **Theory of Trying**

## **Theory of Planned Behavior**

### CHAPTER II: RESEARCH METHODOLOGY

#### 2. 1 Methods of studying consumer behavior:

Qualitative research is a method of inquiry appropriated in many different academic disciplines, traditionally in the social sciences, but also in market research and further contexts.

Qualitative researchers aim to gather an in-depth understanding of human behavior and the reasons that govern such behavior. The qualitative method investigates the “ why” and “ how” of decision making, not just “ what, when, where”. Hence, smaller but focused samples are more often needed, rather than large samples.

#### 2. 2 Sources of information:

##### 2. 2. 1 Internal information:

##### 2. 2. 2 External information:

Two problems the commonly arise with secondary data are they do not completely fit the problem and they are not totally accurate.

#### 2. 3 Data collection:

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2. 2. 1 Primary data:

2. 2. 2 Secondary data:

2. 4 Data analysis:

## **CHAPTER III: INTRODUCTION OF DIRECT SELLING BUSINESS**

### **Definition of direct selling:**

The concept of direct selling is based upon person-to-person relationships.

The seller goes to the consumer rather than the consumer go to a shop. In today's fast changing society, where more people work and shopping patterns have altered, this type of shopping not only provides consumers with accessibility to a wide range of products but is also convenient.

### **2. 2 Benefits of direct selling:**

#### **2. 2. 1 Benefits from distributor edge:**

Direct selling offers opportunity for individuals who want to earn an income and build a business of their own. It offers an alternative to traditional employment for those who desire a flexible income earning opportunity to supplement their household income, or whose responsibilities or circumstances do not allow for regular part-time or full time employment.

The cost for an individual to start an independent direct selling business is typically very low. This means it provides benefits for investors to avoid a significant risk of loss. This also means anyone can do it. Opportunities are offered to any ones who desire, particularly to those cannot or harshly compete for a job opportunity. There are no required levels of education,

experience, financial resources or physical condition in direct selling. People of all ages and from all backgrounds have succeeded in direct selling. Usually, a modestly priced sales kit is all that is required for one to get started, and there is little or no required inventory or other cash commitments to begin.

Direct selling can provide to distributors a good way to meet and socialize with people. For those who want to achieve a success based on the level of their efforts, direct selling is a good way. Set your own goals and determine yourself how to reach them since earning is in proportion to your own efforts. The level of success you can achieve is limited only by your willingness to work hard.

Moreover, distributors can receive training and support from other distributors who works with them, and from the company they counter.

### **2. 2. 2 Benefits from consumer edge:**

Consumers benefit from direct selling because of the convenience and service it provides, including personal demonstration and explanation of products, home delivery, and generous satisfaction guarantees and serves consumers with a convenient source of quality products.

### **2. 2. 3 Benefits from enterprise edge:**

Direct selling provides a channel of distribution for companies with innovative or distinctive products not readily available in traditional retail stores, or who cannot afford to compete with the enormous advertising and promotion costs associated with gaining space on retail shelves. Direct selling enhances the retail distribution infrastructure of the economy.

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## **2. 3 Types of direct selling's compensation plan:**

### **2. 3. 1 Single-level compensation plan:**

Single level compensation plan means a representative/distributor is compensated based solely on one's own product sales.

### **2. 3. 2 Multi-level compensation plan:**

In a multilevel compensation plan, distributors are compensated based not only on one's own product sales, but on the product sales of one's down-line.

Multilevel marketing is an important component of the Direct Selling industry. It is also referred to as network marketing, structure marketing or multilevel direct selling, and has proven over many years to be a highly successful and effective method of compensating direct sellers for the marketing and distribution of products and services directly to consumers.

## **Differences between multilevel marketing and pyramid scheme:**

### **2. 4. 1 Multilevel Marketing model:**

Multilevel marketing is a popular way of retailing in which consumer products are sold, not in stores by sales clerks, but by independent businessmen and women (called distributors), usually in customers' homes. As a distributor you can set your own hours and earn money by selling consumer products supplied by an established company.

In a multilevel structure you can also build and manage your own sales-force by recruiting, motivating, supplying and training others to sell those products. Your compensation then includes a percentage of the sales of your entire sales group as well as earnings on your own sales to retail customers.

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This opportunity has made multilevel marketing an attractive way of starting a business with comparatively little money.

And the most important statement should be emphasized is that multilevel marketing is a legitimate income opportunity for everybody. Anyone can do it.

## **2. 4. 2 Pyramid scheme:**

Pyramid schemes are illegal scams in which large numbers of people at the bottom of the pyramid pay money to a few people at the top. Each new participant pays for the chance to advance to the top and profit from payments of others who might join later.

For example, to join, you might have to pay anywhere from a small investment to thousands of dollars. In this example, \$1, 000 buys a position in one of the boxes on the bottom level. \$500 of your money goes to the person in the box directly above you, and the other \$500 goes to the person at the top of the pyramid, the promoter. If all the boxes on the chart fill up with participants, the promoter will collect \$16, 000, and you and the others on the bottom level will each be \$1, 000 poorer. When the promoter has been paid off, his box is removed and the second level becomes the top or payoff level. Only then do the two people on the second level begin to profit. To pay off these two, 32 empty boxes are added at the bottom, and the search for new participants continues.

Each time a level rises to the top, a new level must be added to the bottom, each one twice as large as the one before. If enough new participants join, you and the other 15 players in your level may make it to the top. However,

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in order for you to collect your payoffs, 512 people would have to be recruited, half of them losing \$1, 000 each.

Of course, the pyramid may collapse long before you reach the top. In order for everyone in a pyramid scheme to profit, there would have to be a never-ending supply of new participants.

In reality, however, the supply of participants is limited, and each new level of participants has less chance of recruiting others and a greater chance of losing money.

A closer inspection of a pyramid scheme's so called " products" typically reveals that they have no real market value. This is because the products are often " gimmicks" such as certificates, spurious training programs or magazine subscriptions, illusory discounts, or over-priced and under-performing " miracle" treatments and the like. Recruits are often obliged to " invest" in large quantities of these products with no realistic prospect of marketing them to actual consumers (or returning them for credit). Their investments, however, generate substantial income for the promoter who enticed them into the scheme.

#### **2. 4. 2 Differences between lawful multi-level marketing model and illegal pyramid schemes:**

The following factors differentiate illegal pyramids from lawful direct selling businesses:

Legitimate direct selling companies offer a genuine business opportunity based on the sale of quality products to consumers. They routinely offer

consumers satisfaction guarantees or cancellation rights so that the consumer may return the product for replacement or refund if the consumer is dissatisfied. Pyramids schemes have no such commercially viable product sales base.

Legitimate direct selling companies strongly discourage overstocking of inventory and provide participants leaving the plan with an opportunity to return any unused, salable merchandise to the company for a refund of not less than 90% of the salesperson's net cost. In contrast, pyramid schemes often encourage or require large stocks of non-refundable inventory and disappointed scheme participants are then left with stock which they can neither sell nor return.

Legitimate direct selling opportunities may be taken up with minimal start-up costs and little or no inventory investment. Even modest entry fees may be refundable if the new direct seller decides not to pursue the opportunity. Conversely, pyramid selling schemes often require high entry fees and/or substantial “ investment” in inventory, and neither are refundable. This is because pyramid operators make their money from new recruits to their schemes.

The sales and marketing plans of credible direct selling companies are based on the progressive recognition and reward of direct sellers for the development of a customer base for consumption of the company's products. The development and stability of a direct seller's business is dependent on satisfied consumers and fairly remunerated direct selling network members. Pyramid schemes, on the other hand, offer get-rich-quick

schemes to induce participants to buy “ ground-floor” or “ leadership” positions. In pyramid selling schemes there is no viable, long-term business opportunity.

Unfortunately, some potentially fraudulent schemes will claim to offer a multilevel marketing opportunity, but in fact are simply recruiting schemes in which people must make substantial investments in order to participate.

## CHAPTER IV: OVERVIEW OF DIRECT SELLING INDUSTRY IN VIETNAM

### 4. 1 Overview of Vietnam direct selling market:

#### 4. 1. 1 History:

#### 4. 2. 2 Market size:

#### 4. 1. 2 Market growth:

#### 4. 1. 3 SWOT analysis:

#### 4. 2 Players of direct selling:

#### 4. 3 Distribution channel of direct selling:

#### 4. 4 Legal framework for direct selling:

#### 4. 5 Leading enterprises:

#### 4. 6 What managers thought about perspectives of direct selling in Vietnam?

In 2008 the retail industry in Vietnam saw very strong expansion in terms of outlets in both grocery and on-grocery channels. Huge investment by local

retailers was poured into the market in order to capitalise on available good locations before Vietnam fully opens its retail industry to foreign investors in 2009. Penetration from foreign retailers was also more fierce compared with 2007. International investors such as Wellcome Supermarket, Best Denki and Lotte Mart, among others, all obtained the requisite license. Local retailers prepared for the foreign invasion by providing better service, improving product quality and implementing more marketing activities and cooperation between local brands.

Non-store retailing remained a niche of the overall retail industry. The main product category remained cosmetics and toiletries. Non-store retailing was not yet strong enough to influence manufacturers or other retail formats.....

Non-store retailing still needs to educate consumers and increase consumer awareness.

(Euromonitor – Retailing – Vietnam 2009)

## CHAPTER V: SURVEY RESULTS – CONSUMER BEHAVIOR OF CONSUMERS IN HO CHI MINH CITY AND MEKONG DELTA

5. 1 Overview of respondents:

5. 2 Descriptive analysis:

## CHAPTER VI: KEY FINDINGS AND RECOMMENDATIONS

Key findings and recommendations:

**CONCLUSIONS:**