

A Conceptual Evaluation of Traditional and Multi-level Marketing

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This paper discloses the conceptual evaluation of traditional and multi-level marketing focusing on distribution, how MLM works and differences between the two. Role of marketing has become important for business organizations whether it may be traditional or multi-level marketing. These two differ in many ways - product, price, promotion, cost, risk involved, time etc. In traditional marketing the distribution channel is a one way track. Multi-level marketing was introduced seven decades ago in the developed country. In multi-level marketing word-of-mouth of a particular customer attracts others. Word-of-mouth has a significant role in MLM for expansion of business. Customers have to meet individual sales target to gain standard commission. For this, the manufacturer sets a standard compensation package. MLM is economically zero risky where products are distributed by volunteer distributors who decide market target and positioning. It has some disadvantages that can be observed in LDC countries - a scope of exploitation exists. Since MLM practice has started in Bangladesh, the investors and the government should be aware about its negative side and take necessary steps to regulate it.

Keywords: Traditional marketing, multi-level marketing, producer, consumer-seller, distribution channel, word-of-mouth, unsought goods, compensation plan.

1. Introduction

In today's modern business-world, every business organization needs marketing. They need to market themselves and their products to earn profit and sustain. Without marketing an organization is out of work which ultimately disrupts its profits. ANM Sayeedul Hoque Khan and Abu Sayeed Talukder (1998, p.65) say that in this era of globalization of market place, the role of marketing is emphasized often without understanding what it really means. Marketing involves different parties mainly buyers and sellers. It also has different dimensions. Traditional Marketing (TM, henceforth) and Multi-level Marketing (MLM, henceforth) are two different systems of marketing. The concept of MLM started its walk in 1949 but it is comparatively new to traditional marketing. Since some MLM companies have started their operations in the sub-continental countries including Bangladesh, it is desirable to be familiar with MLM, TM, and their major areas of differences conceptually. TM and MLM differ from each other in various ways in terms of investment, product, channel of distribution, sales-force (sales team), payment system, risk etc. Generally, MLM is suitable for unique and unconventional products. TM is suitable for any type of product. To learn more about these two marketing systems—TM and MLM, their features, distinctions, preferences this study provides conceptual understanding. Since new MLM companies are operating

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Hossan, Ahammad & Ferdous

in our country, this paper provides an enhanced understanding about MLM, its differences with TM, distribution channel, sales-force, investment, risk involved that will aid in understanding these two concepts. This paper focuses on the distribution channel of MLM and TM system which is done for the first time in Bangladesh.

2. Rationale of the Study

Recently several MLM companies have started their operations in Bangladesh. But due to absence of law on MLM, this business is not operated properly. The government of Bangladesh has given concentrates on this issue recently. In near future, more MLM companies are expected to operate in Bangladesh. The rationale of this study is to disseminate the knowledge to the stakeholders of MLM through defining, comparing with traditional marketing and differentiating with traditional marketing which will aware them.

3. Literature Review

The literature overview represents available theories and models that can be used to understand traditional and multilevel marketing. Among the different scholars on marketing Dominique Xardel (1993), Brian Clegg (2000), Trevor Kitching (2001), Nat Vendolar, J. Peter and William W. Keep (2002), Martin Mendelsohn (2004), Philip Higgs and Jane Smith (2007), Amauri DaRocha (2007), Edwards Paul, Sarah Edwards and Peter Economy (2010) are famous who have the theoretical contributions on such type of marketing.

Dominique Xardel (1993, p. 1-4) says that Multi-level marketing (MLM) is a marketing 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 down-line of distributors and a hierarchy of multiple levels of compensation. According to Philip Higgs and Jane Smith (2007, p.30), Brian Clegg (2000, p.112), Nat Vander, J Peter & William W. Keep (2002, p. 15), Martin Mendelsohn (2004, p. 36), Trevor Kitching (2001, p. 4) - Other terms for MLM include 'pyramid selling' and 'network marketing', and Robert Todd Carroll (2003, p. 36) defines MLM as 'referral marketing'. Other terms that are sometimes used to describe multi-level marketing include "word-of-mouth marketing", "interactive distribution", and "relationship marketing." "Multi-level Marketing" or "Network Marketing" have been described by author Dominique Xardel as being synonymous, and as methods of direct selling. According to Xardel, "direct selling" and "network marketing" refer to the distribution system, while the term "multi-level marketing" describes the compensation plan. A statement (DaRocha Amauri, 2007) claims that the truth is that traditional business models and multilevel marketing share a lot in common. However, there is one fundamental difference and it is the root cause of controversy surrounding multilevel marketing companies. The most widely held assumption about the difference is that multilevel marketing companies encourage their sales representatives to recruit additional sales representatives (down-line) and are paid commissions from their down-line. Thus, as recruits get new members to join their down-line, and their down-line recruits get their own down-line, the levels continue to grow and, a pyramid structure is formed. In contrast to MLM, according to Edwards

Hossan, Ahammad & Ferdous

Paul, Sarah Edwards and Peter Economy (2010, p.38-39), Traditional Marketing is single-level marketing, where the salesperson is rewarded for selling the product directly to the consumer. It is stated (Yana Jamagortin, 2010) that in Traditional marketing, when a consumer buys a product or service from a retailer the money is divided among 4 sectors of the supply chain:

Manufacturer >Distributor >Wholesaler >Retailer >Consumer

In Network Marketing and Direct Selling Independent Distributors market the product directly to the consumer and earn the profit that used to go to the middlemen.

Consequently the profit chain is shorter:

manufacturer > distributor > consumer.

It is observed from the theoretical framework that past studies were conducted only on Traditional Marketing or on Multilevel Marketing. Some studies tried to differentiate TM and MLM overall but not focusing distribution.

4. Objectives of the Study

Marketing plays a significant role in every economy. Recently emerged phenomenon in the world, which also touches Bangladesh, is Multi-level Marketing (MLM). The broad objective of the study is to understand both Traditional Marketing (TM) and Multi-level Marketing (MLM). The specific objectives are as follows:

1. To have concept of marketing and multi-level marketing;
2. To understand how MLM process works;
3. To identify the differences between TM and MLM.

5. Methodology of the Study

The data used in this study is mainly secondary in nature. The data are collected from various books, journals, magazines etc devoted to traditional and multilevel marketing. In analyzing the collected data descriptive method is followed. Table and figures are used to visualize the concepts.

6. Understanding Marketing

The term 'Marketing' is a broad concept in which two parties' involvement is a must – organization and customer/consumer. Marketing always mitigates needs, wants and demands of these parties. Philip Kotler (1999, p. 2) opines that marketing deals with identifying and meeting human and social needs. Gaining business and profit, and consuming products and services for satisfaction are the target of the involving parties. ANM Sayeedul Hoque Khan and Abu Sayeed Talukder (1998, p.66) defines marketing as a state of mind marketing is the philosophy which guides the actions of an organization to satisfy the interest of both consumers and themselves. Marketing is a result from two parties' interactions. Based on the concept of exchange and applicable

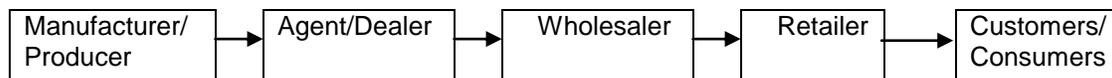
Hossan, Ahammad & Ferdous

in an organization, Michael J. Etzel, Bruce J. Walker and William J. Stanton (2004, p. 6) define marketing as a total system of business activities designed to plan, price, promote, and distribute want-satisfying products to target markets in order to achieve organizational objectives. In 2007 American Marketing Association (AMA) revised its marketing definition of 2004. Gregory T. Gundlach and William L. Wilkie (2009, p. 262) writes that the subcommittee's revised 2007 version of its proposal definition read as follows:

Marketing is the activity, set of institutions, and processes for creating, Communicating, delivering, and exchanging offerings that have value for customers, clients, marketers, and society at large.

Traditional marketing is the process where different types of middlemen exist between manufacturer and final consumer, and such type of marketing concept is very old, and in the maximum cases businesses are walking on this traditional track. In traditional marketing process product price is high, because the cost of transferring goods and margin of middlemen are always being included in the price. Here, only sellers are benefited from the view point of earnings, but consumers have no chance to get any financial benefit, rather they are to loose their pocket for taking products or services.

Figure 1: Traditional Marketing Process: In TM more than one channel members such as agent, dealers, wholesalers, retailer and so on deal with to market the product.



7. Brief History of MLM

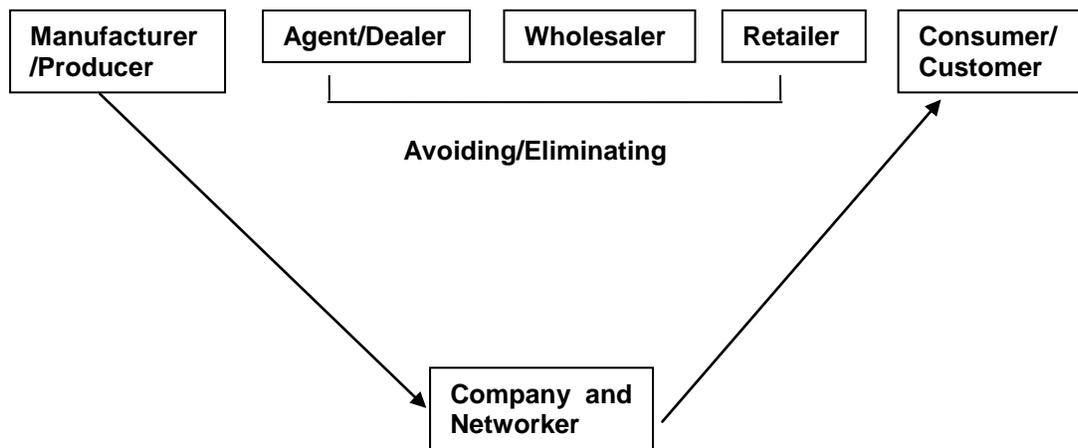
MLM practices started about seven decades ago in the developed countries. Main procedure was applied by Dr Carl Rehn Bourgh, a renowned chemist of America, who after inventing Neutrilit Vitamin, avoiding traditional way of marketing, followed an innovated procedure. Under this procedure, gaining a customer he started to attract many through word-of-mouth of that particular customer. Through first customer many customers went to him for buying which made a good profit, and from that amount of profit a lucrative portion was offered to the first customer and other team-members taking the suggestion from the commission plan. Now-a-days, durable goods such as computer, refrigerator, television, motor vehicles, washing machine, different types of machines, Non durable goods such as detergent, rice, sugar, soap, Services such as telephone service, health service, traveling packages and even Unsought goods such as insurance are marketed under the concept of MLM. Gillette, Colgate, Palmolive have already started to sell products through MLM. In the world, in more than 130 countries MLM practices are exercised. In Canada, USA, Panama, Australia, South America, UK, New Zealand, Japan, China MLM is playing. Malaysia is the biggest market for MLM companies. Recently in India, Pakistan and Bangladesh MLM practice has started.

7.1 Brief History of MLM in Bangladesh

The concept of Multi-level Marketing was unfamiliar to Bangladesh. Neway Bangladesh (Pvt.) Limited first introduced this concept. It is the pioneer company in the MLM field in Bangladesh. It started formal operations in the year 2000. After few days, following Neway a multilevel company started its venture under the name Destiny-2000 Ltd. Its inception time was December, 2000. Following the ways showed by the mentioned two companies several multilevel companies began their operations in Bangladesh in the last decades. From practical experience, it has been observed that most of the recent MLM companies in Bangladesh started fraudulent practice in the absence of legal compliance. This makes the government and civil society concerned. Lastly an MLM company named Uni-pay2U came to the market which is not an actual MLM company. It set a trap to the investors. This year Destiny-2000 Ltd has created the instability to the investors for the government intervention. In Bangladesh, MLM is not practiced in true sense.

MLM has various synonyms such as Network marketing, Teamwork marketing, Freedom enterprise, Home Base marketing and Holiday business. Since in network marketing distributor sells the products directly to the customer, it is also called Direct marketing. As a result expenses of showroom, advertisement and other promotional programs are not needed for the manufacturer. In MLM system only one network team-worker is allowed to marketing avoiding more middlemen.

Figure 2: How MLM Process Works: Avoiding different middlemen MLM process takes the help from only one channel of distribution which is known as ‘Net worker’.



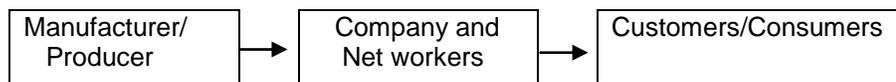
8. The Concept of Multi-Level Marketing

Now we define MLM which is also known as Network or Direct Marketing. Azad Rahman (2004, p. 9) states that Multi-level marketing is the worldly recognized legal, honest and swiftly expanding business. This business is not only recognized by the law in different countries but also in the USA and different countries' Universities include this business context in the curriculum, for example- Ellnoes University of the USA, Chicago

Hossan, Ahammad & Ferdous

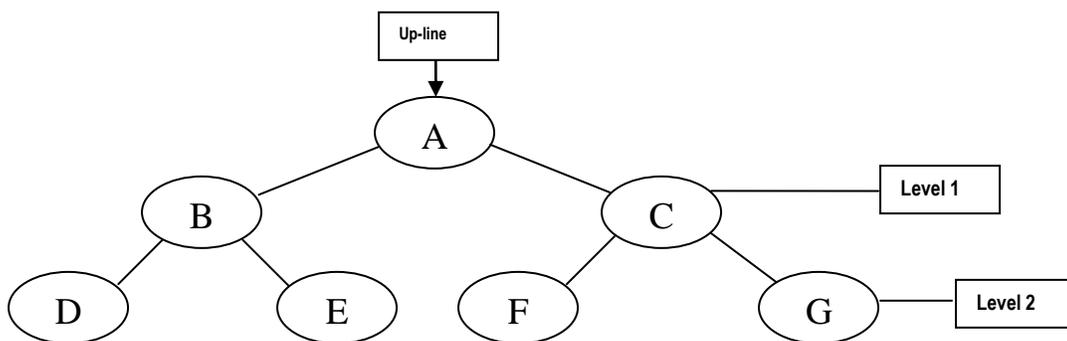
Long Island University. MLM is the strongest and ultra-modern procedure of marketing. It gives the opportunity of making own-way for incoming to an individual. It offers a standard income (commission) but risk is here out of count. Multi-level Marketing is such type of marketing process by which customer/consumer can earn a lot of commission creating new customers through marketing. Here 'creating new customers' will express the idea of recruiting down-line distributors. In the world of MLM, person obtains a designation of distributor or consumer-seller through buying and selling simultaneously. Multi-level or Network marketing is teamwork. Margin from product marketing of a team can consume all the team-members after mitigating individual sales-target.

Figure 3: Multi-Level Marketing process: Manufacturer uses only networker to sell the products under the process of MLM.



The idea of TM is - seller is always seller, consumer is always consumer. In the modern age, this idea has changed by the inception of Multi-level Marketing (MLM). In the Multi-level Marketing process middlemen are avoided to make the opportunity for customers' income. Products are sold here through only one middleman that may be manufacturer's own-houses, middleman or outsider. In such type of marketing, consumer is encouraged to make a sales-team. He/She is said to meet up an individual sales-target. Mitigating individual sales-target, he/she gains a standard commission from both individual and team sales. A standard compensation/commission plan (figure 4) is set by the Manufacturer or Company to calculate the commission to consumer-seller. Various compensation plans are seen in MLM practices. A sample compensation plan is illustrated below.

Figure 4: Compensation Model in MLM.



Mr. 'A' purchases a product from MLM company and becomes a distributor. His duty is to sell two products to 'B' and 'C' subsequently to achieve the predetermined commission. By selling to 'B' and 'C', 'A' and all above in the up-line of 'A' will achieve and receive a commission. Now 'B' and 'C' are offered to same to sell and obtain

Hossan, Ahammad & Ferdous

commission. Here 'A' is the up-line of 'B' and 'C' and they are the down-line of 'A' at the same time. For selling performance of down-line, up-line distributors will be benefited and obtain commission. Each distributor will follow the same system. Every distributor must reach the level to earn the predetermined commission. Level indicates target-sales for the specific distributor. For example, for 'A' to sell to 'B' and 'C' is the first level, for 'B' and 'C' selling to 'D','E' and 'F', 'G' will be the first level and this first level of 'B' and 'C' is the second level for 'A'. Thus each distributor will reach the different levels and their amount of commission will be increased day by day.

9. Traditional Vs. Multi-Level Marketing

Though TM follows the idea of seller-consumer-different entity, in MLM consumer has the power and opportunity to be a seller by which he/she can be a marketer and businessman of that manufacturer. Capital involvement is huge in TM process. To be an agent, dealer, wholesaler or retailer cash amount, office, employees, infrastructure etc. are needed which require a huge amount of capital. On the other hand, in Direct marketing manufacturer needs only marketing organization. The work of agent, dealer, wholesaler and retailer is done by consumer-seller. Instead of advertisement here word-of-mouth is activated. So, for manufacturer recruiting and managing agent or dealer and launching advertisement are not needed which reduce the amount of capital investment. By purchasing a product/service, consumer can be easily a seller or distributor. Bennet D. Peter (1988, p. 54) explains that in a traditional sales organization, the work is done by employees who are hired, fired, promoted or demoted. The marketing department does its job, and the salespeople do their jobs. In network marketing, a product is distributed by a volunteer army of distributors who choose which market to enter or leave, whether to spend their time selling product or building their organizations, and whether to work part-time or full-time. According to the MLM rules distributor must make a sales-team but does not need individual office, employees or other type infrastructures. Manufacturer or marketing organization will support these. Yet, for making a sales-team he or she may perhaps to spend a lump-sum which amount is not mentionable against the opportunity of gaining commission. In the TM process, marketing organization (Agent, dealer, wholesaler, and retailer) and marketing management (Marketing director, Marketing Manager, Marketing Executive) are to invest long time. But because of the opportunity to earn from team-sales a consumer-seller/distributor (Marketing executive of MLM Company) can improve the health of his/her pocket from an MLM company only investing few hours per day/week/month. Financially MLM is a zero-risky business for the consumer-seller. If business is collapsed consumer-sellers' maximum loss is few investing time. On the contrary, since TM is related to a large amount of capital investment, risk is so high here. For any disruption, the marketer (agent, dealer, wholesaler, and retailer) may fall in huge loss.

Both TM and MLM satisfy customers' needs. Providing solution is the base of both TM and MLM. But there are some differences between these two systems which lie on the following points:

1. Infrastructure and capital involvement from the view point of amount;
2. Distribution system (Channel of distribution);

Hossan, Ahammad & Ferdous

3. Designation of the members of sales-team;
4. Payment system to the workforces;
5. Opportunity of time investment of workforce;
6. Amount of risk (unlimited or zero risk).

10. Findings

After the above discussion, finally various findings are explored. Multilevel marketing contains several advantages over the traditional marketing in which differences between the two lies i.e. when an individual speaks on the advantages of MLM over TM, he/she actually says about the differences between MLM and TM simultaneously. So, here advantages of MLM also mean the differences between the two. Following table discloses the advantages of MLM over TM with a comparison at a glance and other differences and findings are discussed also here.

Table 1: Advantages of MLM than TM at a glance

Traditional Marketing	Multilevel Marketing
Huge start up cost	Very little start up cost
Employees/Payroll	No employees needed
Biz location rent	Work from home
Storage needed	No storage needed
Limited resources (cash)	Unlimited resources (People)
Yrs before profit is realized	Realize profit immediately
Dependant on others	Self dependant
Growth depends on market	Growth depends on size of sales team

10.1 Other Major Findings and Differences

Various major findings are mentioned below:

1. The role of the marketer is the most significant both in MLM and TM. In traditional marketing sales representative is required to market the company's products and/or services. On the other hand, under MLM an individual is recruited to sell and he/she is also required to recruit additional sales reps as his down line.
2. In a traditional marketing company, a sales manager and/or sales reps are hired by the company itself. But under MLM, a sales representative has the authority to recruit and train another sales person.
3. Under MLM, whether they generate enough sales or not, an unlimited number of sales reps can be hired. In a traditional marketing company, sales reps are hired based on the financial resources of the company.
4. The MLM distributors are usually paid commissions based on sales volume made by them or by their down line people. This is the reason why MLM enjoys rapid expansion as the marketers can recruit as many sales reps as they like and the company doesn't have to worry about fixed salaries. But in TM company, sales reps are paid fixed salary and in some cases commissions are offered to them as incentives.

Hossan, Ahammad & Ferdous

5. MLM companies usually do not require high start-up costs. On the other hand, the traditional marketing company requires huge investments to set up a whole marketing and distribution channel.
6. In multi level marketing, the parent companies makes a lot of money. Here sales force is so vast and the group selling goes at a very high level, even if a single rep cannot sell at a satisfactory level, and companies enjoy more and more profits. But under traditional set up if a manager does not perform well, the sales of the company are harmfully affected.
7. MLM companies commission plans have a built-in element of fairness i.e. under MLM the high performers earn high and the low performers cannot survive. In TM system, companies have to conduct appraisal for sales force and hiring-firing is needed. The MLM Company does not have to worry about going through the boring procedures of appraisals, hiring, firing etc.
8. Under MLM sales reps or distributors can work any time they like but in TM system they have to work within certain time-line.
9. In Bangladesh most of the MLM companies doing fraudulent activities in the absence of laws.

11. Conclusion and Recommendations

Multi-level marketing is a new concept as compared with Traditional marketing. This concept has already gained its popularity in the developed countries and gaining popularity in the developing countries. In MLM, middlemen are eliminated. Word-of-mouth is active and emphasized in this type of marketing thereby reducing the cost of advertisement and sales people. MLM is teamwork where customers can earn huge amount of commission from marketing - creating new customers. Since middlemen are eliminated, a customer obtains a position (designation) of distributor or consumer-seller through buying and selling simultaneously. In such type marketing, consumers are encouraged to form a sales team. And this team can earn a standard commission by reaching the target sales. In multi-level marketing, also known as net-work marketing, reduced amount of capital, investment and infrastructure are required. Financially MLM is zero risky business; maximum risk is few investing time. Some recommendations are set to follow by the stakeholders:

1. Marketing organizations can introduce MLM system simultaneously with TM system to take the opportunity of advantages with MLM specially by offering unique and unconventional products/services. They should not sell fictitious/ imaginary products.
2. Existing MLM companies should emphasize on motivation to present sales representatives to recruit more down-line people because MLM companies can enjoy rapid expansion if it is done by them.
3. MLM company's distributors should be very much careful about the actual MLM practice because fraudulent practice may be latent on the folder of lucrative commissions.
4. Distributors must appoint more people as the member of sales-team to increase sales volume which determines their commissions.
5. In Bangladesh, government should pass necessary laws as soon as possible to regulate the MLM companies and their distributors' activities.

Hossan, Ahammad & Ferdous

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