# MULTI-LEVEL MARKETING (MLM) ASSOCIATION FACTORS OF BUSINESS INCOME

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**Abstract** – Multi-level marketing (MLM) also known as network marketing is one of the strategy in marketing which motivates its participants to produce income not only from sales they generate but also the sales from other "Downline" participants that they recruited. Current practice of people involves in this marketing strategy is selling, supplying and distributing services or products through many levels of independent participants. Amway, Shaklee, Avon, Nu skin and Mary Kay are practicing the MLM business strategy to expand their business around the globe. In Malaysia, consumers have been exposed to all these types of products including local product brand such as D'Herbs, Dnars Skin Care, Beauty Umaira, etc. Lately, there are overwhelmed of health and beauty product in the market as people and consumer are very concerned about health and beauty. Since, many companies exist in the market as well as the product types, they need to compete among each other and take aggressive actions in order to sustain their brand in the market and business income. Therefore, the aims of this study is to determine this strategy association factors with business income. The survey was done to people who involved in MLM business around Kelantan focus in the health and beauty products. The findings concluded that length of experience in this business strategy has significant association with business income. In addition, participants that have clear target before join MLM, spend time and effort, have support from friends, have guide from upline participants and line members very cooperative with each others also have significant association with participant's business income.

**Keywords**: Business Income, Multi-level marketing (MLM), Test of Association

## 1. Introduction

Multi-level marketing (MLM) also known as network marketing is one of the strategy in marketing which motivates its participants to produce income not only from sales they generate but also the sales from other "*Downline*" participants that they recruited (Koehn, 2001; Muncy, 2004). "*Upline*" known as the recruiter of the "*Downline*" participants. Xardel (1993) described that MLM or "network marketing" is the same and it is the methods of "direct selling". Actually MLM is the compensation plan while "direct selling" and "network marketing" refer to the distribution system. There are several terms that refer to MLM like "pyramid selling", "referral marketing", "word-of-mouth marketing", "relationship marketing" and "interactive distribution" (Higgs and Smith, 2007; Hossan et *al.*, 2012). In contrast to MLM, there are other types of marketing strategy which is traditional marketing known as single-level marketing (SLM). Edwards et *al.*, (2010) stated that, SLM is when the salesperson is rewarded for selling product and services directly to the customer or consumer. In addition, DaRocha (2007) claimed that

SLM and MLM share a lot of common characteristics. In comparison between two, SLM need huge start up cost while MLM need very little start up cost. Other than that, SLM dependent on others, business growth depends on market, and need to wait for a long time before profit is realized. In contrast, MLM is self dependent, business growth depends on sales team size and profit was realized immediately (Hossan et *al.*, 2012).

Although there are a lot of differences between SLM and MLM, only one fundamental difference that is the most crucial and important, MLM encourage their salespersons to recruit additional salespersons and paid commission from their "*Downline*" while SLM does not encourage the salespersons to recruit others and they are paid commission based on only their sales. Rahman (2004) mentioned that MLM is the legal, honest and swiftly expanding business. It was introduced seven decades ago in the developed country like United States, Australia, United Kingdom etc. "Word of mouth" has a significant role in MLM expansion of business. Companies like Amway, Shaklee, Avon, Nu skin and Mary Kay are practicing the MLM business strategy to expand their business around the globe. In Malaysia, consumers have been exposed to all these types of products brand. However, this is not limited to only these brands and there are a lot of company practices MLM business strategies in Malaysia including local product company such as D'Herbs, Dnars Skin Care, Beauty Umaira, etc rather than just imported products.

Lately, there are overwhelmed of health and beauty product in the market as people and consumer are very concerned about health and beauty (Diedrichs et *al.*, 2011; Danley, 2012). They are concerned with their appearance and most of them willing to spend a lot of money as long as they look good and beautiful. They always turn to change to another brand when they found the brand they used before not satisfy them (Miller and Rollnick, 2012). Furthermore, some of them greatly trust and prefer imported products compare to the local products (Quelch and Jocz, 2012). In conjunction of many companies exist in the market as well as the product types, business practitioners need to compete among each others. They need to take aggressive actions in order to sustain their brand in the market and business income otherwise the need to close their company. Therefore, this study was conducted to determine what are the factors associated with business income of MLM business practitioners.

## 1.1    Research Objectives

    i.    To determine the relationship between demographic variable and business income.
   ii.    To determine the relationship between individual factors and business income.
  iii.    To determine the relationship between social factors and business income.

## 1.2    Research Questions

    i.    Is there any relationship between demographic variable and business income?
   ii.    Is there any relationship between individual factors and business income?
  iii.    Is there any relationship between social factors and business income?

## 2.     Literature Review

### 2.1   Demographic Factors

Socioeconomic characteristics of a people expressed statistically like age, gender, level of education etc are known as demographic factors (Entorf and Spengler, 2000). Demographic factors are always used by many researchers prior in a lot of study before depth analysis take into consideration. Changes in demography are one of the factors that lead to the alteration of economic sectors especially in business. There are a lot of demographic factors and variables that have been studied by previous researcher like job position, ethnicity, gender as well as age of the respondents (Ismail and Yusof, 2009). Miller and Karakowsky (2005) indicated that there are differences between men and women in their effort and behaviour.

Riege (2005) suggested that the difference of age would become a potential factors lead to their act and behaviour. A set of demographic variables were used in order to explore the succession of business. (Stavroy, 1999). Kellermanns et *al*. (2008) found that successful business can be influenced by characteristics like age, tenure, as well as gender. Keyes (2008) stated that level of education and their job status somewhat affect the people behavior indirectly affect the business income. Stamper and Dyne (2001) in their study also mentioned the same that there are relationship between work status and behavior among people. Demographic factors are the success factors in business and business system (Teo and Ang, 1999; Yeoh et *al*., 2010). Therefore, all factors mentioned will be included in this study for further analysis and testing.

### 2.2   Individual Factors

Personal characteristics explained the individual factors. Bird (1988) defined that personal characteristic as a state of mind that includes experience, person's attention and behaviour toward certain object. Mazzarol et *al*. (1999) explained that personal characteristics play an important role in business start-up process. According to Pangil and Nasrudin (2008), no study reports the effect of experience with people behaviour indirectly with business income. A study by Keyes (2008) and Gumus (2007) concluded that experience within the organization had no effect on knowledge sharing. Therefore this can be concluded that it does not affect business income. However other studies reported that length of experience has a positive significant relationship with knowledge sharing behaviour between business practitioners, "*Upline*" and "*Downline*" as well as toward business income (Watson, 2006).

Walker and Brown (2004) measured the success of the business by the combination of the personal characteristics and attributes of the business owners. They stated in the successful business, personal factors like pride in the job and flexible lifestyle are generally have higher value than other factors. In addition, Talukder et *al*. (2008) mentioned that individual factors included prior experience, image and enjoyment are important.   Otherwise, Trkman (2010) highlighted as one of the critical success factors in business are personal traits like self-confidence, charisma, and trustworthiness. Therefore, individual factors were taking into consideration for this study.

### 2.3   Social Factors

Social factors in successful business are driven by social environment means the successful business practitioners are always influenced by positive social environment and have high social

perceptions (Kalkan and Kaygusuz, 2012). Personal connection with appropriate authorities and individuals is more important in the business as one popular saying stated "who you know is more important than what you know" (Yung and Tung, 1996). In early stage of a distributorship, the relationship between "*Upline*" (recruiter) and "*Downline*" (recruit) is very close for several reasons, including concerns about upsetting friends and acquaintances. It has been proved that effort and potential social relationship associated with business income (Baron and Markman, 2003; Koroth and Sarada, 2012). However, Lan (2002) stated that strangers or remote friends are better target than close friends for MLM business because distributors feel less pressure. Forster (2010) highlighted that one of the most important factors of success and longevity elements in business is networking and strong connection between people around includes friends and seniors. The relationship among the "*Upline*", "*Downline*" and customers need to be strong and close to remain sustainability of the business.

Although relationship between friends and "*Upline*" may have a positive effect on business outcomes, MLM participants often were encouraged to consider their friends and relatives to become their potential customers. This marketing strategy mostly involved business role on a friendship and involved developing a friendship within a business relationship. Relationship plays an important role in developing network in MLM system. It is not surprising that a lot of study on relationship in marketing has found that friends and relative are more likely to be valuable exchange partner. MLM strategy can exploit the relationship because the "*Downline*", "*Upline*" and customer have to communicate each other. Once members have cultivated close relationships between them, they will become hooked towards MLM. They can be successful bind recruiting others and eventually influence their business income and performance (Emek et *al*., 2011). Ardichvili et *al.* (2006) proved that position in organization has no significant impact on the behaviour among top managers and middle managers. Meanwhile, Collin (2004) indicated that senior employees often acted as mentors and share their knowledge and experience with junior employees. Gumus (2007) concluded that sharing knowledge is influenced by their position in the organization.
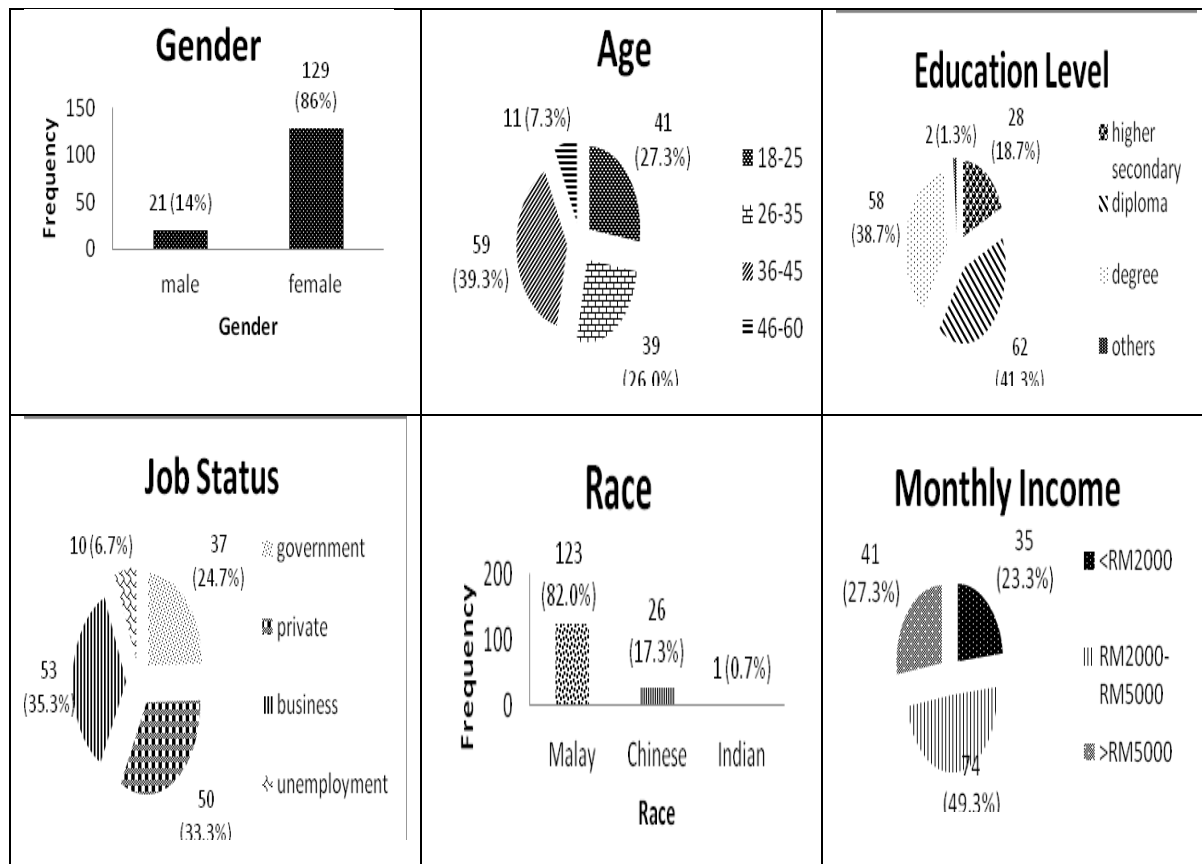
## 3.    Methodology

This study used cross-sectional design to analyze business income among MLM practitioners. Three major independent variables named demographic, individual factors, and social factors were included. Demographic is divided to gender, age, education level, job status and race. Individual sub-factors are listed as length of experience, have clear target before join MLM, have spend time and effort for MLM business, and think that this marketing strategy should focus on recruit and sponsor new participants. In addition, social sub-factors are listed as have support from friends, have guide from "*Upline*" participants, "*Upline"* participants encourage to see positive pictures in MLM business, have good relationship among line members, line members are very cooperative and line members are very supportive. All this sub-factors are items in the questionnaire and were measured by ordinal scale (1=Disagree, 2=Neutral, and 3=Agree). Convenience sampling technique was applied to sample 200 respondents from target population. Target population for this study is MLM business practitioners that focus on health and beauty in Kelantan. The total completed and returned set of questionnaires is 150. Hence data was analyzed according to the received set of questionnaires.

Data entry and analysis was done by using Statistical Package for Social Science (SPSS). Variety types of statistical techniques like descriptive analysis, frequency analysis and Chi-Square test of association were used to describe and analyze the data collected. Data was checked, explored, and cleaned before further the analysis. Thereafter, bar chart, pie chart, and frequency analysis were used to describe the data collected. The Chi-Square test of association was used to measure the relationship between two categorical variables (Daniel, 1990). The null hypothesis states that there is no relationship between the two variables. For this study, the Chi-Square test of association was used to identify the association or relationship between business income with demographic, individual factors and social factors.

## 4.    Result and Discussion

Tables and figures below explained the findings of this study from 150 completed questionnaires. This section will discuss result from statistical analysis that was done.

**MLM Company**

- 15 (10.0%)
- 11 (7.3%) Amway/Cosway
- avon
- 48 (32.0%)
- herbalife (50.7%)
- 4life

**MLM Experience**

Frequency

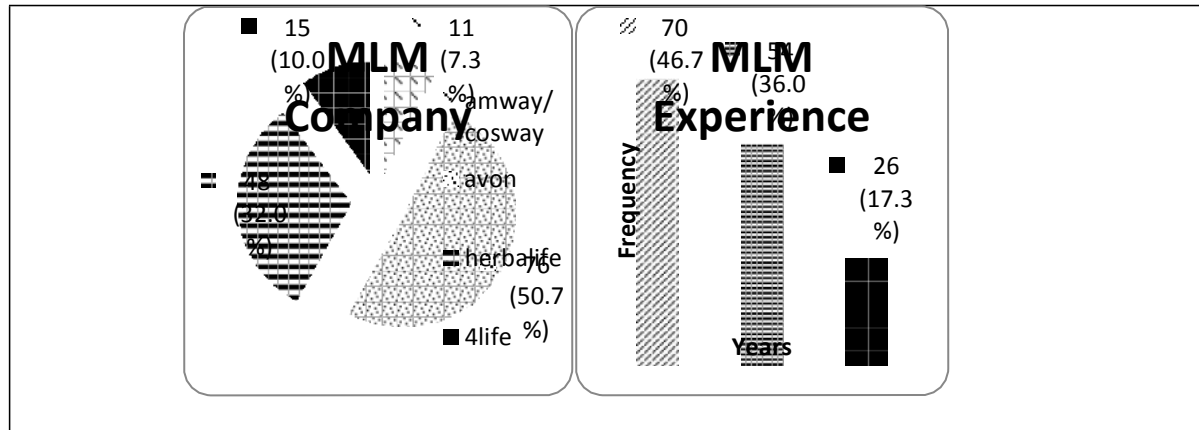- 70 (46.7%)
- (36.0%)
- 26 (17.3%)

Years

Figure 1: Demographic profile of the respondents in MLM business.

Demographic profile of the respondents is shown by Figure 1. Majority who involved in MLM business strategy are female with 86% (129) from total respondents meanwhile only 14% (21) are male. Most of them are age between 36 to 45 years old (39.3%, 59) and a few of them are age 46 and above with only 7.3% (11) of the respondents. Many practitioners who involved in MLM business strategy are well educated since most of them are diploma (41.3%, 62) and degree (38.7%, 58) holders. In addition, minority of them just have higher secondary qualification which is 18.7% (28) of the respondents.

According to their job status, most of them are a full timer in business (35.3%, 53) and followed by private sector (33.3%, 50). Nevertheless, practitioners of MLM business strategy who are not employed are just 6.7% (10) which is the lowest percentage. MLM practitioners that are working in government sector are 24.7% (37) from the total respondents. Most of the respondents selected are Malay (82.0%, 123) and selling products from *"Avon"* (50.7%, 76) company which are famous for many years in beauty products for the women. A lot of respondents selected are newbie in the MLM business strategy since their tenure is less than 2 years (46.7%, 70). However, their income is pretty good since most of them have around RM 2,000 to RM 5,000 (49.3%, 74) monthly from their business.

Table 1: Test of Association between Demographic Factors and Business Income (n=150)\

| Factors | Pearson Chi-Square value | p-value | |
|---|---|---|---|
| Gender | 12.994 | 0.002 | * |
| Age | 28.532 | 0.000 | ** |
| Education level | 12.829 | 0.046 | * |
| Job Status | 38.213 | 0.000 | ** |
| Race | 4.120 | 0.390 | N.S |

Note:*p-value<0.05, **p-value<0.001; N.S is Not significant; Pearson Chi-Square test

Table 1 presents the association test of demographic factors. All factors are significant to the business income except for race ($\chi^2 = 4.120$, p-value = 0.390 > 0.05). This explains gender

have significant association with business income ($\chi^2 = 12.994$, p-value = 0.002 < 0.05). Age also have significant association with business income ($\chi^2 = 28.532$, p-value = 0.000 < 0.001) means business income was influenced by their age (either young or old). Education level ($\chi^2 = 12.829$, p-value = 0.046 < 0.05) and job status ($\chi^2 = 38.213$, p-value = 0.000 < 0.001) also have significant association with business income.

Table 2: Test of Association between Individual Factors and Business Income (n=150)

| Factors | Pearson Chi-Square value | p-value | |
|---|---|---|---|
| Experience | 29.065 | 0.000 | ** |
| Have clear target before join MLM | 9.686 | 0.046 | * |
| Have spend time and effort for MLM | 25.608 | 0.000 | ** |
| MLM should focus on recruit and sponsor new participant | 5.148 | 0.272 | N.S |

Note:*p-value<0.05, **p-value<0.001; N.S is Not significant; Pearson Chi-Square test

Table 2 presents the association test of individual factors and business income. Length of experience in MLM business strategy have significant association with business income ($\chi^2 = 29.065$, p-value = 0.000 < 0.001). Participants that have or do not have clear target and aims before join MLM business have significant association with their business income ($\chi^2 = 9.686$, p-value = 0.046 < 0.05). In addition, participants that have and do not have spent time and effort for their MLM business also have significant association with business income ($\chi^2 = 25.608$, p-value = 0.000 < 0.001). Otherwise, participants that think MLM business strategy should focus on recruit and sponsor new participants do not have significant association with business income ($\chi^2 = 5.148$, p-value = 0.272 > 0.05).

Table 3: Test of Association between Social Factors and Business Income (n=150)

| Factors | Pearson Chi-Square value | p-value | |
|---|---|---|---|
| Have support from friend | 10.427 | 0.034 | * |
| Have guide from "Upline" participants | 12.606 | 0.013 | ** |
| "Upline" participants help see positive pictures in MLM | 2.563 | 0.633 | N.S |
| Have good relationship among members | 3.506 | 0.477 | N.S |
| Line members are very cooperative | 11.634 | 0.020 | ** |
| Line members are very supportive | 4.824 | 0.306 | N.S |

Note:*p-value<0.05, **p-value<0.001; N.S is Not significant; Pearson Chi-Square test

Table 3 presents the association test of social factors and business income. Participants that have support from friends ($\chi^2 = 10.427$, p-value = 0.034 < 0.05), have guide from "*Upline*" participants ($\chi^2 = 12.6606$, p-value = 0.013 < 0.05) and line members are very cooperative ($\chi^2 = 11.634$, p-value = 0.020 < 0.05) have significant association with business income. Contradiction with participants that their "*Upline*" help see positive pictures in MLM ($\chi^2 = 2.563$, p-value = 0.633 > 0.05), participants that have good relationship among members ($\chi^2 = 3.506$, p-value = 0.477 > 0.05) and line members are very supportive ($\chi^2 = 4.824$, p-value = 0.306 > 0.05) do not have significant association with business income.

## 5.    Conclusion

In conclusion from the findings of this study, demographic factors, individual factors, and social factors have significant association with business income. This is supported by past researchers (Kellermanns et *al*.,2008; Keyes, 2008; Stamper and Dyne, 2001; Trkman, 2010; Forster, 2010). Clearly, "*Upline*" participants or senior line members must involve directly in giving support and guiding among newbie to generate greater business income as social support seems very important to the business income. However, the MLM participants' themselves must have great intensity to success in MLM business strategy rather than just depend on other people for support.  For future research, it highly recommends to consider other important variables like organizational factors including effect of training and additional incentives towards business income and family support. Future researcher also should enlarge the sample size and may use probability sampling techniques so that the findings of the study can be generalize to the target population.

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