

A Conceptual Evaluation of Traditional and Network Marketing

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Abstract:

The present study highlights the conceptual evaluation of traditional and network marketing. It focuses on functioning of network marketing and provides a comparative view of traditional and modern network marketing. In the present competitive business world every organization needs marketing. No organization survives without the marketing of itself as well as its products and services. Thus, the part of marketing has become important for all business organizations whether it may be traditional or network marketing. Both type of marketing system differ to each other in respect of product, price, place, promotion, cost, risk and time associated etc. In traditional marketing system product flows through various channels (i.e. carrying and forwarding agents, wholesalers, retailers etc.) from manufacturer to end users. Presence of all these channels results in high distribution costs. There are also high advertising costs. To cope up with this problem many organizations today are selling their products and services directly to consumers without intermediaries and are thus identifying new prospects through a process called network marketing which is a specific form of direct selling. Network marketing or multilevel marketing is the movement of products or services from the manufacturer to the consumers directly through distributors using word of mouth marketing. The Indian network marketing industry is enjoying noticeable position over eighteen years as a dominant mean of employment and one of the fastest growing marketing and distribution system in the world, besides that, it is facing negative perception of the society due to some illegal companies having pyramid schemes or money circulation schemes. Hence, the investors and the government should be mindful about its disconfirming side and must take necessary action to regulate it.

Keywords: Traditional Marketing, Network Marketing.

Introduction

In the present competitive business world every organization needs marketing. No organization survives without the marketing of itself as well as its products and services. Marketing is the base of existence of every business organization. From a long time, traditional marketing system is being used for the distribution and marketing of the products and services. In traditional marketing system product flows through various channels (i.e. carrying and forwarding agents, wholesalers, retailers etc.) from manufacturer to end users. Presence of all these channels results in high distribution costs. There are also high advertising costs. The pressure of all these additional costs is borne by the end users. To reduce these additional costs, the need of such a system was realized in which these costs could be reduced by eliminating the various distribution

channels. To cope up with this problem many organizations today are selling their products and services directly to consumers without intermediaries and are thus identifying new prospects through a process called network marketing. Both type of marketing system differ from each other significantly in terms of product, price, place, promotion, cost and time, risk etc. The present study provides deep insights of traditional as well as network marketing and also presents a comparative view of both type of marketing system.

Rationale of the Study

Presently many network marketing companies are operating in India. But Indian law is silent for network marketing. Therefore, network marketing industry is confronting negative perception due to unethical practices adopted by some illegal companies adopting pyramid or money circulating schemes. The Central Government has announced that it is drafting a policy on network marketing industry to address the concerns of the consumers and strengthen the credibility of the sector which is providing huge employment opportunity. The rationale of the study is to provide a deep knowledge of network marketing and distinguishing with network marketing.

Literature Review

Multilevel Marketing is a specific form of direct selling and is also known as 'multilevel marketing' or 'multilevel direct selling' (Muncy, 2004). It involves retailing based on face to face communication between a selling agent and a potential buyer (Brodie et al., 2002; Kustin and Jones, 1995; Msweli and Sargeant, 2001). These distributors or agents get commissions, discounts or other considerations for their direct sales as well as for indirect sales made by their down lines (Koehn, 2001; Higgs and Smith, 2007; Coughlan and Grayson, 1998). In this way, distributors or sales persons gets an opportunity to build his/her own business or network through recruiting, training and motivating others to sell the same products or services (Vander and Keep, 2002). Network marketing not only for those who need the products for, but also who need additional income (Bloch, 1996). Success of network marketing depends upon the presence of relationship marketing which is the foundation of building, developing and maintaining strong and long lasting relationship with customers (Constantin, 2009). Only strong relationship can create the true sense of commitment among distributors for each other and for their network marketing organization (Litten, 2010; Mathews *et al.*, 2007).

Literature is also available for differentiating legitimate network marketing to pyramid schemes. Any network marketing organization having the characteristics of product or service based, reasonable joining fees and provision of buy-back of unsold stocks from the distributors, is not considered an illegal pyramid scheme (Cava *et al.*, 1997; Taylor, 2000; Sheffield, 2000). Croft et al. (2000) identified that one of the key features of the legitimate network marketing company is buyback policy i.e. to repurchase the unsold stocks lying with the distributors. An important difference between network marketing and pyramid schemes is that network marketing operations are centered on sales of products or services while pyramid schemes are centered on recruitment not on sales (Vander and Keep, 2002; Muncy, 2004; Snook, 2005).

Traditional marketing rewards the sales persons for selling the products or services to the customer. In this type of marketing a product moves from manufacturer to customer by crossing different sectors of supply chain (Yana, 2010).

Manufacture→Distributor→Wholesaler→Retailer→Consumer

As stated earlier, in case of network marketing, product moves from manufacturer to consumers directly through independent distributors.

Manufacture→Distributor→Consumer

Hence, there is no deficiency of literature regarding different aspects of traditional as well as network marketing. Although, some studies differentiated traditional and network marketing but, did not focus on distribution system.

Objectives of the Study

Marketing performs an important role in the development of any economy. Over the last six to eight years the network marketing industry as a whole has grown world wide. The broad objective of the study is to gain deep understanding of network marketing. The specific objectives are as follows:

- To have concept of traditional as well as network marketing
- To study the history of network marketing in India
- To differentiate traditional marketing to network marketing

Methodology of the Study

The present study contains only secondary data, collected from various journals, newspapers, magazines etc. Descriptive method has been used to analyze the collected data. Tables and figures have also been used to visualize the concepts.

Traditional Marketing

Traditional marketing involves movement of products from manufacture to customer through various channels/intermediaries like agent, wholesaler, retailer etc. The presence of all these channels increases the cost of distribution. Along that, there is also high cost of advertising and sales promotion in traditional marketing. All these costs i.e. distribution as well as advertising result in high price of the products, which is paid by the customers. It can be said that in case of traditional marketing customers do not get any financial benefit.

Figure 1: Process of Traditional Marketing- Adopts many channel of distribution

Brief History of Network Marketing in India

The concept of network marketing emerged due to the impact of great recession which took place during 1929-1949 (Clements, 2002). This concept was developed by a U.S. based vitamin company Nutrilite in 1945. It developed a marketing plan through which high cost of distribution and advertising could be reduced by eliminating the intermediaries and by use of word of mouth marketing (Albaum and Peterson, 2011).

In India, network marketing is still at a growing stage. Early players like Amway India, Modicare, Tupperware and Oriflame India are the initiators who really introduced the concept of direct selling and network marketing in India. Modicare was created in 1995. Oriflame Cosmetics entered the Indian market towards the end of 1996 and introduced the concept of network marketing. Tupperware entered India in November 1996. It used the concept of three Ps- Product, Party plan and People. Amway started its operation in India in 1998 with a range of cosmetics. It was the largest network marketing company in India (Attri and Chaturvedi, 2005).

Network Marketing

Network marketing is gaining much attention in today's business era now a days. It is a new marketing strategy to capture more and more customers by eliminating the flaws related with the traditional marketing system as regards to distribution channel, promotion and advertising. Network marketing is a product distribution system in which products are moved through independent distributors. The distributors are independent because there is no formal relationship of employer and employee among the distributors. They are given an opportunity to set up their own business by recruiting other distributors as their downline (Koroth, 2011).

Figure 2: Process of Network Marketing- Adopts only one channel of distribution

In case of traditional marketing, seller is always seller and consumer is always consumer. Network marketing has changed this idea and provided an opportunity for customers' income by eliminating the middlemen like wholesaler, retailers. Products are sold through only one channel of distribution. They play the role of a consumer, retailer and recruiter. As a consumer, they buy the products from network marketing organization at discount for their personal consumption. As a retailer, they buy the products at discounts and sell them at high prices to the end users who are

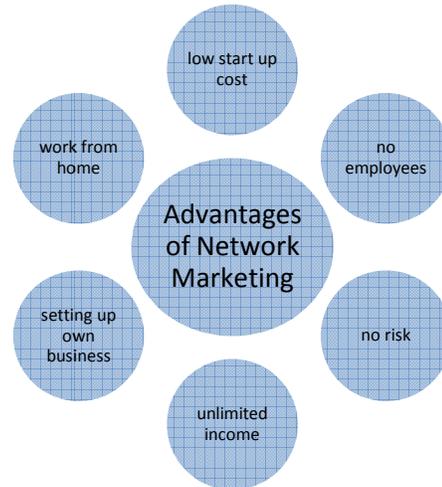
not the distributors. In this way they get sales margin. They also get commission on the sales made by them. So, as a retailer they get sales margin and sales commission. As a recruiter, distributors recruit other persons as their down line. Distributors also get commission on the sales made by their recruits and their recruits' recruit (Coughlan and Grayson, 1998). Distributors also play an important role in the marketing of products. Marketing is done through word of mouth by the distributors. So, the additional costs of distribution and advertising get distributed among the distributors in the form of commission on their direct and indirect sales (Brodie *et al.*, 2002). The success of the network of distributors depends on the trust and cooperation among the distributors (Oksanen, 2000).

Traditional vs. Network Marketing

The basic objective of traditional as well as network marketing is to sell the products to customers. However, both types of marketing system differ to each other in many aspects. In case of traditional marketing, both buyers and sellers have different identity. As far as network marketing is concerned, an individual distributor plays the roles of a consumer, retailer and recruiter. Network marketing involves low investment in comparison of traditional marketing due to the absence of wholesaler, retailer etc. Traditional marketing involves mass media advertising and sales promotion which increase the prices of the products. On the other hand, word of mouth marketing is adopted in network marketing which cuts the cost of advertising and result in lower prices of the products. Traditional marketing requires recruitment of many employees for different functions which is opposite of network marketing which does not require any employee. Large storage of products is used by wholesalers, retailers in traditional marketing. On the other hand, a network marketing distributor does not require any storage; in fact, distributors can work from their home. Traditional marketing does not give the opportunity to earn to the customers, but, network marketing gives the opportunity to earn and setting up own business to its customers. Growth depends on the size of the market in traditional marketing. In case of network marketing growth depends on size of the sales team. As far as risk is concerned, it is high in traditional marketing due to large capital investment and low in network marketing due to low investment.

After the above discussion, it is enlightened that network marketing incorporates several advantages over the traditional marketing system. Here, advantages of network marketing are also the base of differences between both types of marketing system i.e. traditional as well as network marketing.

Figure 3: Advantages of Network Marketing than Traditional Marketing at a glimpse



Conclusion and Recommendations

Network marketing or multilevel marketing as one of the possible forms of distribution of products and services as well as specific remuneration system, is gaining much attention in Indian consumer market. It contains several advantages like low start up cost, low risk, unlimited income, opportunity for setting up own business etc. over traditional marketing system. Overall, network marketing is providing employment opportunity in present inflationary period and simultaneously facing negative perception of the society due to some illegal companies which are based on pyramid or money circulation schemes. Some recommendations have been set to be followed by the stakeholders:

- Indian government should take necessary steps and formulate new laws and regulations to regulate the activities of network marketing companies.
- Network marketing companies should be conducted ethically and legally.
- Network marketing companies should try to differentiate themselves from illegal and fraudulent pyramid schemes and try to create positive perception regarding network marketing.

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