

# The Behavior of Independent Distributors of MLM Companies in Taiwan

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## **Abstract**

The Multi-level Marketing (MLM) is an innovative personal selling scheme that has been adopted by many business organizations to market their products and services all over the world. It has been proved to be very efficient and effective. However, it also has been misused by some fraudulent companies and brought negative image to the MLM industry. Over the past twenty years the legitimate MLM companies have been trying very hard to change the reputation and, as a result, the MLM is gradually becoming acceptable to the public. The management of direct sales distributors is the most important task for an MLM company. This paper studied the issues related to the behavior of direct sales distributors that are essential in the MLM industry, especially in Taiwan. In investigating how direct sales distributors recruit, train, and interact with their up and down-lines, a closed-end questionnaire was designed and used. A total of 137 valid questionnaires were collected from middle and high level distributors in 7 foreign and local MLM companies in Taiwan. The results were analyzed, and the conclusion and suggestions were presented.

**Key Words:** Multi-level Marketing, Personal Selling, Independent Distributor

## **Introduction**

Since its conception, Multi-level Marketing (MLM, also called Network Marketing) has been practiced around the world for over a half century. An MLM company sells its products with a network of independent sales forces that also recruit new sales people as their down-lines. With the commission rate follows a step function of the group sales volume, the sales person could put all his/her down-lines' sales volumes together to qualify for a higher commission rate and distribute the commission to his/her down-lines according to the down-lines' applicable commission rate. In this manner, a sales person with a large network of down-lines could make a lot of money that he/she could not possibly get in a traditional personal selling career. With this incentive scheme, every sales person is working very hard to sell products as well as recruit down-lines.

According to the statistics released by The World Federation of Direct Selling Associations, in 1997 the direct selling industry in the world has generated a total sales volume of US\$80.47 billion, representing a 2.06% growth from that of 1996. Furthermore, the total number of people involved in the direct selling activity has grown to 31 million, a 25% increase from 1996's level.

However, in spite of its continuous growth, the MLM industry has also been involved with several political, economic and sometimes social issues as a result of its rapid development. From a historic perspective, there are abundant examples of what problems would arise when a well-intended marketing method like MLM is misused due to factors such as loopholes in the regulation, weak law enforcement, and most often, a poor public understanding of its commercial application.

Having dealt with several image-tarnishing blows in its early development, over the years Taiwan's MLM industry has gradually recovered itself from the shadow of being equated as an illegal pyramid scheme. With the joint efforts made by the government regulatory agency, the Fair Trade Commission (FTC), disciplined MLM practitioners, and media, Taiwan's MLM industry has regained its long-deserved status in the marketing arena and in recent years has been making impressive progress. In 1997, the industry created a total sales turnover of NT\$40.1 billion (US\$1.43 billion). Even though the figure is a 1.8% decrease as compared with that of 1996, the average sales volume per MLM company actually increased to NT\$167.16 million (US\$5.97 million), an increase of 5.3% from 1996. Moreover, in addition to the increased sales volume, the total number of direct sales distributors in Taiwan had also reached 2.72 million, representing 12.56% of the total population and ranked No. 3 in the world, following the U.S. and Japan (1998 Fair Trade Commission, FTC).

Nevertheless, facing increasing competition from both local and international firms, every MLM practitioner should strive to mobilize all the resources in its operating environment. And with the concept of human capital plays the most vital role in an MLM company, this research aims to find out the behavior of independent distributors in Taiwan's MLM industry.

### **Research Objective and Method**

The aim of this research is to provide the first-hand information and analysis on the behavior of direct sales distributors in Taiwan's MLM industry. In investigating how direct sales distributors recruit, train, and interact with their up and down-lines, a closed-end questionnaire was designed and used. With the helps of the administrator of 7 foreign and local MLM companies, 500 questionnaires were issued to the direct sales distributors and a total of 137 valid questionnaires were collected from middle level and high level distributors. These questionnaires were analyzed and conclusions were made.

### **Literature Review**

According to FTC's definition, "MLM is an activity in which a person joins an organization by paying a specified amount of money, which entitles him/her to promote and sell the organization's product(s), to introduce others to join, and to receive commission, bonus, and other forms of financial rewards." Since a direct sales distributor is not a formal employee of an MLM organization and can be a consumer, sales representative, and sales network leader simultaneously, how to develop an attractive package to cater all the needs of direct sales distributors is indeed a vital challenge.

Since the operation of an MLM business depends largely on its human capital, a well-round training program is essential to achieve a successful market operation. In providing new recruits and veteran distributors with necessary training, MLM companies should be flexible as well as responsive. For new recruits, the training program should aim at preparing them mentally and installing them with correct concepts. For the high level sales distributors, the training program should focus on how to duplicate the success formula and manage the whole sales team (Zi-lan Chang 1998)

With regards to recruiting new members, according to a survey conducted by the Network Marketing Magazine (1998), close to 60 percent of the respondents said they withdrew after joining an MLM firm for less than a year. This phenomenon revealed that many people in Taiwan have an unrealistic expectation when they first decide to join an MLM company. The easy-to-apply formula often makes a new aspirant

underestimate the efforts required to succeed and also misjudge the earning potential in MLM business. The later only turns out to be a great disappointment that leads to quitting. This should serve as a reminder to MLM companies' recruitment strategy. In spite of its unlimited market potential and earning power, many new direct sales distributors are ignorant of other less favorable characteristics of MLM business such as slow initial development, less solid market control, high turnover, etc.

Moreover, although it is quite common to assume that earning extra income is the primary reason for people to join an MLM company, several studies done in Britain and U.S. have concluded otherwise. According to these research findings, when joining an MLM company, factors such as like for the product, achieving short-term goals, being one's own boss, enjoying discounted price, and winning praises from others were all cited as important factors (Berry 1997). In a similar study done on four American MLM companies, Wotruba and Pradeep (1992) found that people who were motivated by factors such as social rewards (praises, recognition, etc.), the sense of self-satisfaction and accomplishment, and flexible working hours generally have higher productivity in their sales performance and were less prone in quitting.

## **Research Findings and Analysis**

### **The demographic characteristics of respondents**

- (1) Females outnumbered males with a ratio of 53/ 46.
- (2) The majority of respondents are in the 31-40 age group (45.9%), followed by the 21-30 age group (34.1%).
- (3) Single people outnumbered married ones by a ratio of 65.4/34.6.
- (4) Part-timers outnumbered full-timers with a ratio of 68/32
- (5) In terms of education, 42.7% of respondents have a high school diploma, followed by 32.8% with a college and 20.6% with a university degree.

### **The working experiences of respondents**

- (1) The average working experience of respondents since they first joined MLM industry is 2.88 years.
- (2) Due to the fact that most respondents have been spending some time building their own sales networks, each respondent has an average of 200 down-lines (counting both direct and indirect), which could be broken down to 28.3% single male, 47.5% single female, and 24.2% couples.
- (3) Asked to judge the overall performance of their down-lines based on several demographic criteria, respondents replied an active down-line is more likely to be a female, aged between 31 and 40, married and with a high school degree.
- (4) With regard to the time they normally spent in direct selling activities, respondents

said they spend 26.42 hours a week in direct selling related work.

- (5) Their average monthly income from working as a direct sales distributor is NT\$70,451.

### **The motivations to join the MLM business**

- (1) 71.5 % of respondents listed "establishing one's own business"
- (2) 62% answered "needs for products,"
- (3) 53.3% said "increasing incomes."

In choosing an MLM company, an overwhelming 97% cited the company's "long-term prospects" as more important than "immediate financial gains."

### **Recruiting down-lines**

In recruiting new members, relatives (67.2%), co-workers (64.2%), and cold callings (40.9%) were cited as main sources. And in searching for potential down-line candidates, respondents said "needs for products," "high ambition," and "friendliness" were all important considerations. Furthermore, when persuading a potential candidate to join the network, the three most cited reasons were "effectiveness of the product," "good company image," and "the bright future prospect of the industry."

### **Training and support**

In assisting their down-lines to do career planning, 80% of the respondents said they adopt a "gradual guiding and helping" approach while the rest opted for a "laissez-faire" style. In providing new recruits with training, 84.7% of the respondents said they usually arrange newcomers to attend courses offered by their companies, 75.9% said they would also train the new recruits personally, and 29.2% said they usually organize their own training programs.

### **Communications between up and down lines**

In terms of communication with their up and down-lines, "telephones," "face-to-face meetings," and "informal gatherings" were listed as the means most commonly used. And when meeting with their up and/or down-lines, distributors often exchanged information on "their (regular) jobs," "sales progress," and "current obstacles they are facing."

### **Comments on the incentive schemes**

Commenting on commission and bonus schemes, 88.6% of the respondents said they considered a high leadership commission----- the commission they earn by developing their sales networks-----as more attractive than a high retail commission-----the commission they receive for selling company products. When asked about what motivated them the most in MLM business, 68.9% of the respondents replied "high company commission," followed by "being promoted to a higher position," and "public recognition in a company conference."

### **The turn over problems**

With regards to the problem of quitting early, many respondents considered “failure in adjusting oneself” as the main reason, followed by “the inflexibility of one’s regular job,” and “opposition from family members.”

In dealing with unenthusiastic down-lines, 81% of the respondents said they would try to “find out the reason and offer personal experience and advice,” 53.3% said they would “hold gatherings to raise spirits,” and 41.6% said they would “let their down-lines make their own decision.”

### **Dealing with disputes between up and down lines**

When the relationship with down-lines are not working well, 69.3% of the respondents said they would “take the initiative and try to solve the problem”, 23.4% replied they’d never had such an experience, 16.8% said they would “just leave it there”, only 9.5% said they would “seek assistance from their companies”. Moreover, when facing the situation in which a down-line is being approached and pursued by another network leader to switch network, more than half of the respondents answered they had never faced such a problem while 27% said they would solve the problem privately and 12.4% said they would report the case to the company.

### **The allocation of time**

Given 100 minutes to describe how they spend time on different activities, respondents said they spent 26.7 minutes in recruiting efforts, 37.3 minutes in cultivating current relationship with down-lines, and 35.9 minutes in assisting down-lines to expand their operation. When they were in their low period, 80.3% said they “talked to their up-lines or/and co-workers,” 19.7% said they “took a short break to readjust themselves,” and 16.1% “sought assistance from their companies.” Also, many distributors regarded low periods as an opportunity for self- readjustment and recharging.

### **Attitude toward the company management**

Being asked in what aspects they are most satisfied with their companies, 70.6% of the respondents replied “effective products,” followed by “a good company image” and “efficient order processing.” In evaluating the effectiveness of using advertising and public relations efforts to assist their sales efforts, respondents cited “participating and sponsoring public-cause events are the most effective means for raising both company and industry image. In addition, the use of TV commercials is also regarded as beneficial in raising product awareness among consumers.

Finally, in eliminating the misunderstandings of the general public and building a clean, healthy industry image, most respondents agreed upon the key role the government plays in both instilling the general public with correct direct selling

concepts and cracking down on unscrupulous market practitioners.

### **Conclusion and Suggestion**

From research findings, we have discovered many trends resulting from the development and maturation of the MLM industry in Taiwan. We found that high quality products, good company image, and unique company culture and management philosophy that a consumer can identify with, are all vital factors in ensuring a prosperous MLM operation. In addition to showing an affirmative attitude to FTC's efforts in straightening the ill-reputed pyramid scheme operators, surveyed distributors all expressed their high expectations on government's future constructive undertakings.

MLM companies should focus their efforts on consolidating their current network operation and enhancing the productivity of their sales force. In order to achieve these goals, an MLM company should:

(1) Be technology-driven and market-mined

The survey revealed that most respondents showed great confidence in their company products, the most essential element in attracting new customers and expanding market. However, with intensifying marketing efforts made by different traditional retailing sectors and the effects of shortened product life circles, companies who take the advantage they currently enjoy for granted have an appetite for danger. To stay competitive, MLM companies should familiarize themselves with new technologies and constantly upgrade their abilities in cost control through high-tech means.

(2) Create synergy through forming strategic alliance

In 1997, there were 16 MLM companies that formed strategic alliances with other companies to promote their products and expanding market reach. They generated a sales turnover of NT\$480 million, representing 1.27% of the industry's overall sales volume. Even though finding a suitable working partner that would contribute to the overall cooperate synergy is not an easy task, many market observers and MLM company executives have predicated its growing popularity in the future. In addition to establishing beneficial relationship with other market operators, companies should also devote their efforts toward building mutual supportive relations with both the government's regulatory body and the academic community to enhance the public's understanding of direct selling business and create a win-win-win situation that benefits the society as a whole.

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