

Marketing Mix in Multilevel Marketing Companies

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Abstract: Multilevel marketing as one of possible forms of products or services distribution as well as the remuneration system is widely considered to be serious, fair and ethic way of managing and functioning of the organization. However, many people are still against. One of the possibilities how to prove it and how to show the significant difference between traditional and MLM companies refers to the comparison of their marketing mixes. This article deals in full with MLM system and compares marketing of non-direct sale companies as well as direct sale companies where the dealers are remunerated according to multilevel marketing. This comparison is based on the basis of 4P's and extended 7P's marketing mix.

Key-Words: Multilevel marketing, marketing mix 4P's, service marketing mix, direct and indirect selling

1 Introduction

Multilevel marketing (MLM) or network marketing as one of possible forms of products and services distribution as well as the specific remuneration system is nowadays well-known. However, it is not still fully respected way of companies system. Despite decades of functioning both worldwide and in the Czech Republic, MLM is still in many cases considered to be a pyramid and fake schema.

MLM companies as well as other companies use various marketing tools. Marketing goals are accomplished by means of the tools which create marketing mix. A product, price, distribution and promotion are the instruments that allowed companies to influence their offer and make competition advantages. The more, these tools match the purchaser wishes, needs and desires, there is the better chance for a company to be successful in the market and fulfil its planned goals.

The aim of this article consists in the comparison of 4P's or 7P's (in case of services) marketing mix of the MLM principal companies and tradition (non-direct sale companies). The aim is to find out the difference, if there exists any, in marketing mix. If the marketing mix and its parts vary significantly, it is necessary to discover the influence on the company and find out potential risks.

2 Problem Formulation

MLM is a specific system of products distribution and seller remuneration. This system is frequently

and mistakenly taken as unfair principle or direct sale only. „*Multilevel marketing according to Direct selling association is a direct sale of products and services conducted in person directly to consumers in their homes or in a place outside of a permanent establishment through independent distributors or dealers who may receive their reward both for their own sales and depending on the sales of distributors they brought and introduced them the business.*” [5] According to Direct Sale Association MLM refers to a specific system of products distribution and a specific system of remuneration.

Obviously MLM companies must necessarily produce a product or service and consequently must specify the price and choose the way of distribution and communication. Marketing mix is also used as in other companies. The question is what is the difference in marketing mix in MLM companies and traditional companies?

Marketing mix is a suitable tool for comparison of companies. A product, price, distribution and marketing communication or promotion can easily show which areas are identical and which differ. Concerning to services, the marketing mix is added with next free instruments. They are people, processes and physical evidence.

2.1 Direct Sale Principle and MLM

Multilevel marketing enables companies to distribute and sell goods in direct way. That means from producer directly to the consumer.

This process shall enter no more than one level, represented by the distributor (or dealer). Personal selling specific is direct communication with addressee of information (face to face). Such communication put high demands on the vendor who has to be able to answer all questions and objections at the moment. However, this also represents the biggest advantage of personal selling, which is the immediate feedback and reaction. In the case of mass communication immediate feedback is impossible.

The principle of compensation in MLM is based on sales. Selling distributor receives remuneration determined on the basis of the remuneration system of a particular company. As Direct Selling Association says, rewards do not depend only on distributors sales but it also depend on sales of vendors who distributor brought to business, taught them how sell products and do the business. The system allows each vendor to create a network of distributors, and thus greatly increase their own income.

In MLM company is possible to meet with several possible ways to reward fellow participants and it means with several kinds of MLM system.

There is a difference between systems and on the use of a particular system depends the method of calculating fees for sellers. Some systems allow to create own network to an unlimited depth, and the width, others systems do not allowed to create unlimited numbers of forefronts.

2.2 MLM in the Czech Republic

There are many MLM companies in the Czech Republic. Some are all-Czech. It means they even produce in the Czech Republic. [2] MLM companies have been operating in the Czech market for decades. Some of the companies entered to the Czech Republic soon after 1989. For example German company LR Health&Beauty Systems that entered into the Czech market in 1993. Many years experience of firms such as Mary Kay, prove the stable multiyear's work. Next example According to ČEKIA, Czech Capital Information Agency – the provider of companies economical information, MLM company, LR Health&Beauty Systems below to 100 most stable companies in the Czech Republic. [3]

There are many areas where MLM companies operate in the Czech market. Most of them (roughly 70%) refer to the category of health, beauty, cosmetics, health lifestyle, accessories and home accessories. MLM companies operates in other areas such as financial counselling, insurance,

energy optimization, loyalty and fidelity systems and the sale of gold or diamonds. [2]

3 Problem Solution

The comparison of these two selling principles in the basis of marketing mix enables to gain the list of specifics that MLM companies in marketing represents. The compared companies are with long tradition in the Czech market operating in cosmetic industry and in financial counselling.

The method of gained findings refers to the comparison. Comparison conduces to establishing the basic characteristic marketing mix differences between traditional and MLM companies.

The comparison was carried out in the companies with the same field of production.

The following tables (Table 1, Table 2) show instruments of the marketing mix 4P's (in case of services 7P's) and highlight the main differences between two types of companies. These fundamental differences are described in detail. The following tables name the general differences and characteristics that are valid for most companies. These findings can therefore be applied to most companies. However, this does not exclude some differences for particular companies. For example, MLM company can take advantage of mass communication, although the result shows that it is not characteristic form of marketing communication, that MLM company would use. The differences are mainly due to the originality of each company and its specifics.

3.1 Product

A product is the essential part of marketing mix. Both forms of companies are identical in this point and both of them offer products or services from various fields. What is specific for MLM companies is that they are mostly concentrated on certain fields of production. As already mentioned these fields predominantly are health, beauty, healthy lifestyle, financial counselling and insurance.

Concentration right on these spheres results from their character. These types of products usually require certain level of service, help, guidance or recommendation. And exactly this direct sale together with MLM principle fully enables. Now, it is necessary to highlight if a company does not sell any product and the principle is based only of gaining new members and new members' fees (which enables remuneration newly registered).

MARKETING MIX 4P's	TRADITIONAL COMPANY	MLM COMPANY
Product	manufacture of products and services (multiple fields)	manufacture of products and services (lower diversity of fields, outweighs the cosmetic industry, financial counseling)
Place	indirect distribution predominantly	outweighs direct distribution, at very most single level distribution
Price	price determined on the basis of selected strategy	price determined on the basis of selected strategy + the final price is influenced by shortening the distribution chain and the constraints of mass communication
Promotion (communication)	mass communication primarily	personal or direct communication primarily

Table 1: Comparison of Marketing Mix 4P's

Resource: author's findings

Such a company is marked as a pyramid game or system.

As is evident from the comparison, and as shown in Table 1, the main difference (in product area of marketing mix) is that traditional companies offer wide spectrum of products, while MLM companies are focused on few industries or fields and the reason is that their types of products require special service. Thus, both types of firms do not differ in the need for overall planning, deciding on the target group, positioning, both they have to communicating benefits of products to customers and competitive advantage. In this way, there is no difference.

3.2 Place

Traditional firms may also use the direct way of sale, however, non-direct sale is typical for these companies. Utilization of one or more distribution interlinks is typical for non-direct sale distribution. The particular interlinks refers to various wholesale and retail units. Traditional companies mainly uses the indirect way of distribution where are more interlinks are represented. Every particular company selects this. A company may use only one interlink or more interlinks such as wholesale, distributor, and retail shop. This classical way of distribution using interlinks then increases the price of a

product. Every single interlink add its cost on product movement and profit margin. [4]

Direct way of sale together with MLM system differs from the traditional principles in number of interlinks. It is zero. There may be maximum one interlink (e.g. distributor) which does or does not own the product. This system saves significant sums of finance because the company does not have to negotiate with other intermediaries and does not have to higher the product price.

As comparison proved the essential difference between traditional and direct sale is shortening of distribution channel at minimum. Concerning to advantages and disadvantages of both systems there is a significant advantage in direct, personal contact with consumer in direct sale system and direct feedback. On the other hand, there are worse conditions for promoting. But the indirect distribution offers wider sale of goods in the market and wider potential of customers. The disadvantage may be the price for end consumer, intermediary insolvency, the loss of producer surveillance over the goods and therefore lower feedback.

3.3 Price

The price policy in both systems depends on every single company. The price of the product determines the position among other products. Both systems companies decide on the price due to

the following facts: company and marketing goals, positioning strategies, target group, cost, demand and competition. [1]

Both types of companies use the same price setting such as penetration strategy, skimming strategy, competition strategy, psychological pricing, premium pricing or cost based pricing. The specific features of MLM companies consist generally in the effort of shortening the distribution channel and consequent stable price of product thanks to the omission of interlinks. Next specific feature refers to the limitation of mass communication which is generally low in MLM system. This also restricts the price increase, the mass communication costs which are usually high are not lately part of the closing price and the MLM companies obtain in the price area significant competition advantage.

3.4 Promotion

Promotion or marketing communication is an important element in both types of surveyed companies. Description of the MLM system shows that the distribution and sale of products is based on direct (personal) way. Communication takes place in person it is therefore a form of marketing communications called personal selling, which in itself carries many specifics over other forms of communication.

The basis of the communication mix of companies operating on the MLM system is a direct (personal) contact with consumers compared to traditional companies, which mostly use mass communication and mass media. In the case of surveyed companies mass communication mainly represents TV commercials, print and outdoor advertising. However, this does not exclude the use of other forms of marketing communications for both types of companies and communication mix of a company, whether traditional or MLM, is derived from its objectives.

In the case of MLM companies the main form of communication is direct communication with the customer so-called "face to face" communication. Thus distributor replaces mass communication and thus distributor itself is the main communication medium. Representation and its ability to respond immediately and communicate appropriately with consumer is essentials. As already mentioned, the advantage is the immediate feedback which traditional company without personal contact are not able to obtain.

Generally we can say that MLM companies do not use mass advertising largely and they mainly

focus on personal presentation compared to traditional firms. An important role is played by so-called word of mouth communication. Word of mouth marketing (WOMM) is an unpaid form of communication, which is based on recommendations of the product or service by the customers. [6]

But there are also those MLM companies that do not preclude mass communication tools such as financial consulting company Partners, which use both television and outdoor advertising. As the mass promotion is very expensive (the company has to expend funds for an advertising agency, media buying, etc.) it may affect the final price of the product. [7] Thus, MLM companies save a massive amount usually assigned for mass advertising and they rather invest this amount in its distributors, especially in their education and motivation, just because a distributor is the main element replacing mass communications. Thus, they can for example provide free education system for distributors or they can offer special financial bonuses for their sales and work done in the coaching of new distributors to motivate them.

However, if you look at the problem from the other side, the absence of mass advertising may cause a wide unacquaintance of brand, and thus a certain skepticism and reluctance to become acquainted with a brand. In this case, a traditional company that uses mass communication can have a considerable advantage.

It is necessary to noted that MLM companies as well as traditional companies use other forms of communication even if mass communication and personal communication is essential. Companies use any other forms of marketing communication such as direct marketing, PR, and sales promotion. Which tools of marketing communication they choose depends on the communication mix of the particular company.

3.5 People

One of the marketing mix instruments, which mainly refers to services (but often it is also undeniably significant for product sales) are people. They are an essential element for services because of inseparability of producer from any service. Consumers perceive and evaluate service quality based on interaction with the provider. Therefore, this component is so important and right choice of service provider can provide a significant competitive advantage. This applies to both

traditional companies and multilevel marketing companies.

Other important point in case of MLM companies is precise presentation and appropriate behaviour because of personal presentation, which is fundamental of multilevel marketing. Precise presentation is highly important also in case of traditional companies because of inseparability of producer from any service as it was mentioned

There is a significant difference in the distribution process but it was already mentioned. Other processes depend on the type of service, regardless of the type of company. Thus it possible to say that there are differences in processes but the main aim is identical.

SERVICE MARKETING MIX	TRADITIONAL COMPANY	MLM COMPANY
People	Selection of appropriate personnel by company (or more precisely selection by responsible person). Necessity of precise presentation and appropriate behavior because of inseparability of producer from any service.	Selection of workers by independent distributor. Only potential worker makes decision whether to enter to the company. This decision process is not interfere with another person. Necessity of precise presentation and appropriate behavior because of personal selling which is fundamental of multilevel marketing.
Processes	the aim is high quality processes appropriate to the type of service	the aim is high quality processes appropriate to the type of service
Physical evidence	advantage of invariant place where the service is offered	variable place where the servis is offered - necessity of choosing a suitable place

Table 2: Service marketing mix comparison

Resource: author`s findings

A significant difference in this marketing mix component lies in the selection of workers or distributors. In traditional companies selection of appropriate personnel is made by company (or more precisely selection is made by responsible person in the company). In case of MLM company selection of workers depends only on distributor and final decision is made by potential co-worker. Only potential co-worker makes decision whether to enter to the company. This decision process is not interfering by another person. Basically it means that anyone can enter to the MLM company so there is major responsibility on distributors to target the appropriate staff and coach them in the right way.

3.6 Processes

This component of the extended marketing mix represents the overall system of fulfillment of service. In this case, both companies aim to quality processes corresponding to the service.

3.7 Physical evidence

The place where the service is offered significantly affects the customer. Since service is intangible it is important to fit environment to service which company offers and acted accordingly to the customer expectance. Customers decide whether if service is quality and whether the company is reputable and trustworthy on the base of physical evidence (it means office equipment, environment where service if offered etc.).

Traditional companies have their permanent establishment or place of offering the service. Thus, they can decide how place of business will be equipped so they can influence how customer will be feeling in the place.

In many cases MLM companies and their distributors do not provide services in the permanent establishment and is therefore significantly important that the seller himself chose a suitable location and environment where the client service process will take place. Thus, the responsibility is

placed on the seller and this is the main difference in comparison with traditional companies.

4 Conclusion

Comparison of the marketing mix has brought a clear overview of the differences and similarities in its instruments. The most significant difference is found in the area of distribution and also utilization of marketing communication tools varies in many ways.

In case of services the most significant difference was found at the very workers (people). Difference is not how they do by customers but how they choose workers offering the service.

Comparison of the marketing mix emphasized primary differences between traditional and MLM company. Comparison did not show that these MLM companies are negatively affected by the differences; moreover these differences often bring them competitive advantage. Thus, there is no evidence that the marketing mix of MLM companies shows serious risks that could contribute to a negative view of MLM companies.

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