

Social Networking Applications in Multi-level Marketing Business

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Abstract

New marketing brings many relevant features into marketing area, such as closer relationship with customers, where customers are facilitated to help companies to create their brands, web contents, comment and discuss about various articles. As well organizations can communicate with their members more easily by using internet. In the article is looking for the new ways to increase customer satisfaction and improve organizational communication by combining two direct marketing forms - direct selling and internet marketing. Direct selling and its multi-level marketing form could be more facilitated by using Internet than ever before. Social networks allowing sellers to provide more relevant information, offer direct consultations despite the geographic location, sellers might also review potential or current customer's profile and according to customer's interests or personality type offer different products, apply different marketing strategies. In order to combine those direct marketing forms and provide recommendations for multi-level marketing companies, in this article principles of multi-level marketing and social networking are analyzed, general social networks marketing strategy is provided and following researches were conducted: questionnaire, in-depth interviews and compatibility of expert opinions.

Keywords: multi-level marketing, social networking, direct marketing, online marketing, consultant, network marketing

JEL classifications: M31, M37

Introduction

The closest communication between companies and customers is implemented through direct marketing (Kotler, 2008). Direct marketing has many different forms. The oldest form is direct selling and the newest is online marketing, linking consumers with sellers electronically (Law, 2009).

Multi-level marketing is one of direct selling forms (Taloo, 2007) and, even it is the oldest way of communication with customers, the number of companies applying multi-level marketing model is still growing all around the world (Federation of European Direct Selling Associations, 2010). Multi-level marketing success lies in applications of relationship marketing, defined as building, developing and maintaining strong relationships with customers (Constantin, 2009).

The newest form of direct marketing is online marketing and it is implemented through the World Wide Web on the Internet. Recent studies

show that the one of most important reasons making strong impact on increasing use of Internet is social networking websites (Wave5, 2010). It has changed the way that people do business, communicate, and share information with each other (Shelly and Frydenberg, 2009).

In order to maintain strong relationships with customers, multi-level marketing business model also must be developed according to customers' needs and wants and new trends of marketing.

The problem that this research seeks to examine relates to the lack of recent instructions how to create effective social networking strategy that could guide consultants of multi-level marketing companies. Marketing on social networks is a relatively new phenomenon. Multi-level marketing companies are currently looking for new efficient marketing solutions in social networking websites. While the literature on social networking strategies is growing, there are still no indications for multi-level marketing business.

The paper refers to the examination of the effectiveness of social networking tools for multi-level marketing business development. The aim of the article is to offer recommendations for social networking applications in multi-level marketing business in order to gain higher consumer satisfaction and improve organizational communication. The research objectives are the following: a) to provide an overview literature about multi-level marketing and social networking, b) to perform a survey on the members of social networking websites in order to analyze consumer response to the multi-level marketing consultants operating in social networks, c) to take interviews from professionals of multi-level marketing company and designate advantages and disadvantages of multi-level marketing business and its operation in social networks, and d) to designate multi-level marketing features in social networking and develop recommendations for social networking strategy, which may be used for multi-level marketing consultants to create effective profiles. **The research methods** include analysis of scientific literature, secondary data analysis, in-depth interviews, expert interviews and questionnaire survey.

Conceptual framework

Direct marketing forms

Marketing has started to develop increasingly since the time when businesses shift their focus from production to needs and wants of their consumers, in order to stay profitable (Pride, 2006); (Kotler, 2008). Many of marketing and promotion tools were developed to attract customers. Most of those tools were created in the context of mass marketing, but its standardized messages and offers was not as effective as direct communication with customers, consequently many companies started to adopt direct marketing, which is called as branch of marketing management (Kotler, 2010).

Direct marketing has important advantage in its implementation - distribution. Distribution channels, in order to make products and services available to customers, can be designed by companies in many different ways including different numbers of channel levels. According to Kotler, Armstrong, (2010), every layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a channel level. The number of intermediary levels indicates the length of channel (Kotler, 2010).

The channel which has no intermediary levels and the company sells directly to consumer, the channel is defined as direct marketing. Other channels where retailers and wholesalers are included illustrate examples of indirect marketing. As the channel level is lower and the

consumer is closer to producer as easier is to apply different marketing tools and achieve various objectives (Wadman, 2000) and obviously costs of business activity and the price of the product or service decreases.

Direct marketing can be implemented through seven major forms (Kotler, 2010) such as personal selling, direct-mail marketing, catalog marketing, telephone marketing, direct-response television marketing, kiosk marketing, new digital marketing technologies, and online marketing (see also Bishop, 2002).

Principles of Multi-level Marketing business

Personal selling is also known as direct selling, which has gained popularity in recent decades (Taloo, 2007). Direct selling is attractive because of the sale of a consumer product or service on a person-to-person basis that mainly takes away selling from a fixed retail location (Dunne, 2007); (Taloo, 2007); (Cant, Strydom, 2009). According to Taloo, (2007), multi-level marketing is one of three direct selling types and describes it as companies recruiting business people who act as distributors for their products. These distributors in turn recruit and sell to sub-distributors, who essentially recruit others to sell their products, usually in the homes of customers (Taloo, 2007).

Multi-level marketing (MLM), also known as network marketing (NM) - is a business model which is combined of direct marketing and franchising (Taloo, 2007). This combination of franchising and direct marketing shows up when we look through the main characteristics of network marketing given by author Dyer (2001):

- Network marketing involves face-to-face selling away from a fixed retail location. Thus, most of Network Marketing Organizations (NMO) do not advertise or have a storefront presence. So this kind of selling usually is done either person to person (one to one) or person to a group (one to many).
- Company sales representatives, who are also called as distributors, not only sell goods and/or services - they also attempt to recruit new distributors. New distributors might need to pay relatively small signing fee, but it is also the same in franchising.
- Company representatives make money through mark-ups on the sale of goods and services as well as receiving residual income from the sale of goods and services of those they recruit who become distributors in their down-line (Dyer, 2001).

Because of its structure multi-level marketing has faced with image problem in many countries. There are difficulties in making clear distinction between legitimate network marketing and illegal "pyramid schemes" or Ponzi schemes. Image question of any company is very important in marketing, so that for the further analysis it is important to find distinction between legitimate and illegal network marketing schemes.

Authors Cant and Strydom (2009) give guidelines how multi-level marketing could be distinguished from pyramid schemes:

- Multi-level marketing sells quality products
- Multi-level marketers start-up fees are relatively small
- Multi-level marketing's objectives is to sell to customers and to establish a viable long-term market

- Multi-level marketing companies will repurchase any unsold products if the distributor decides to quit.

Pyramid schemes, according to Cant and Strydom (2009), make profits by signing up new distributors who must pay a substantial amount of money to be part of the system - they are not concerned with repeat sales to the end consumer, distributors are focused on attracting others into the scheme than on selling or distributing goods or services (CCH New Zealand, 2007)

Principles of Social Networking

The Internet has changed the way that people do business, communicate, and share information with each other. Web has evolved firm a collection Web sites containing pages of static or infrequently changing text, images, and hyperlinks to support interactive Web applications performing business transactions, sharing and viewing photos and videos, chatting, and collaborating. (Shelly and Frydenberg, 2009) Thereby, the internet was one more good chance for businesses to contact consumers, create and apply marketing tools on market-space.

The terms of social media marketing, web 2.0 and user-generated content are all used interchangeably. Social media are media for social interaction, using highly accessible and scalable communication techniques. Social media is the use of web-based and mobile technologies to turn communication into interactive dialogue. Kaplan and Haenlein (2010) define social media as "a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, which allows the creation and exchange of user-generated content."

One of the five main Web 2.0 categories proposed by Constantinides (2008) is Social Networks - applications allowing users to build personal websites accessible to other users for exchange of personal content and communication. In other words, social networking websites provide individuals with an opportunity to share details about themselves on personal webpages and interact with others through cyberspace. (Heery; Noon, 2008) Other authors define social networking sites as "web sites that allow members to construct a public or semi-public profile and formally articulate their relationship to other users in a way that is visible to anyone who can access their file" (Hutchison et al., 2010). Social networking sites allow anyone to have a personal web presence. Author Hutchison (2010) also underlines characteristics that have made social networking sites popular. Characteristics include the following:

- 1 Social networks allow for self-expression.
- 2 It requires very little knowledge of web design.
- 3 It allow for social interaction and networking.
- 4 It is for free or inexpensive to use.

Marketing strategy guidelines in Social Networks

In order to become a market leader in virtual space it is not enough to create a profile on any social network - there must be professionally thought out and prepared "social networking strategy" (Barkan, 2008). The main difference, why the marketing strategy of social networks differs from traditional, is that this model is one of the key roles played by the user - it becomes a content creator and promoter. Barkan (2008) underlines that in order to create social

networking strategy, it is necessary to consider the following stages of the strategy:

- 1 Profile your audience (current and potential);
- 2 Objectives of Social Network strategy;
- 3 Formulate your messages;
- 4 Choosing Platforms;
- 5 Intellectual Property (IP);
- 6 Recruit Network Champions;
- 7 Craft your processes, plan, resources and budgets;
- 8 Measurements (Barkan, 2008).

Research methodology

For the research of this work are used both qualitative and quantitative marketing researches. A quantitative survey (Questionnaire) study will look at consumer attitudes to the multi-level marketing consultants, who are advertising various products on social networking websites. Also, a quantitative study will be conducted in order to summarize the estimates of experts, and finding a common approach to how to advertise produce in social networking websites. Meanwhile, a qualitative (in-depth interview) study will examine this issue in principle, the exclusion of multi-level marketing business specific features in social networking websites. This qualitative study will be used to create social networking strategy advice and solutions for multi-level marketing consultants.

In the questionnaire "Customer reaction to Multi-level marketing consultants on Social Networks" have participated 74 respondents. General population for the survey - the citizens of Lithuania who have registered at least in one of social networking websites: Facebook.com, LinkedIn.com, Twitter.com and Myspace.com. Just only one of these respondents answered that person is not connected to social network. After the negative answer the survey automatically ends. Thus, the study treated 73 responses in total.

In-depth interview were organized with four professional multi-level marketing consultants who have more than 2 year experience in this kind of business.

Seven experts participated in the expert interview. Opinions of experts, operating in social networks as multi-level marketing consultants or administrators of company's profile, were mathematically calculated in order to find most representative one.

Empirical findings

Questionnaire results

In the survey participated 68.5 percent of women (50) and 31.5 percent of men (24). Since for the survey was chosen non-probability sampling method, it was difficult to ensure nearly equal gender participation in the study.

The majority of all respondents were 18-25 years old (56 percent of women and 23 percent of men). A bit smaller proportion of respondents was 26-35 and 36-44 age groups. Under age and over 45 year old respondents did not participate in the survey. Usually multi-level marketing companies are choosing the audience which is mostly 18-25 years old, this age group activity in the survey was the highest so it

will help to determine exactly how the audience reacts to potential consultants on social networks.

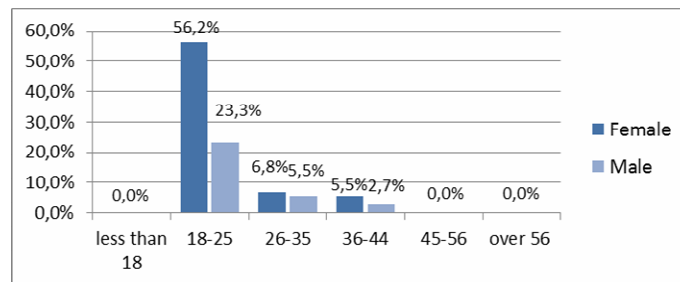


Figure 1. Respondents classified by age groups

Majority of respondents answered that they are registered on the social networking website "Facebook" (75.8 percent). The second most popular website among the respondents was "LinkedIn", this website is used approximately one of ten respondents (8.4 percent). Portal "MySpace" and "Twitter" uses only every 20th respondent (4.2 percent).

The vast majority of social network members are active or very active users of social networks. Seven out of ten respondents are connecting to at least one of the social networks few times per day (68.5 percent). Mainly these results show that it is effective to apply various marketing tools on social networks, because customers use social networks very often.

Questionnaire results showed that the majority of the respondents, 74 percent respondents have purchased products directly from the consultant, 26 percent have never purchased products from consultants. After the results of survey were divided by gender there is visible trend that women purchase products directly from the consultant more often than men (equivalent to 60.3 percent of women and 13.4 percent of man).

The survey results showed that the vast majority of both groups (that is 26.6 percent of those who already purchased directly from the consultant and 13.9 percent of those who were not) would use the opportunity to contact a consultant on social networking. Quite a large proportion of both groups of respondents chose the option "maybe" (equivalent to 35.4 percent and 13.9 percent), the answer could dominate because it has not yet been sufficiently widespread consultations on the social networking and most consumers have never faced to such a possibility. According to the survey results it is supposed that social networks can help reach a broader audience of consumers, which might be interested in the production and at the same time improve communication with existing customers.

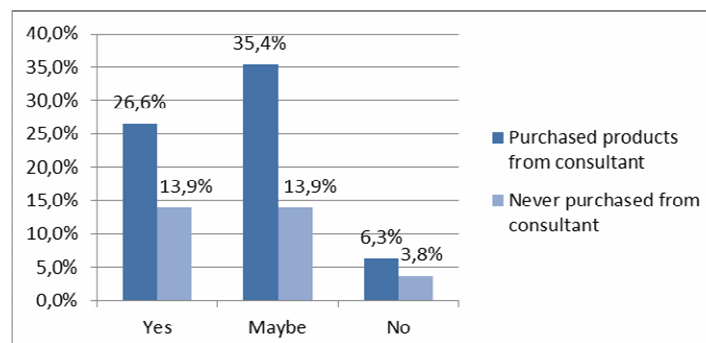


Figure 2. Consumer interest in having consultant on Social Networks

There was noticed difference between opinions when was asked about consultants in general and when was mentioned examples of multi-level marketing consultants. Majority of respondents (58.9 percent) did not

express interest in multi-level marketing consultants. Bearing in mind that the preceding survey has the most of respondents who liked the possibility of products consultant on social networking (74 percent), the number of respondents who were interested in having online consultant on social network has dropped significantly to about 40 percent after question where consultants were specifically named as multi-level marketing distributors. This difference of opinions can be assumed as negative opinion about multi-level marketing companies and their distributors among respondents.

Women (19.2 percent) are more interested in multi-level marketing consultancy opportunities on social networks than men (4.1 percent).

Results after the questioning what ways respondents usually become or became members of social networking profiles showed that there are no specific trend towards women, while men are more likely to be interested in the links of other people's profiles. Most of the respondents say that they find consultants on social networks by themselves (23.3 percent). Second common way for man and women how do they join profiles of consultants is because they have coincidentally noticed post on friends' profiles that they joined profile of the company or a consultant (20.4 percent) and another way is reported advertising (20.4 percent). The third way how respondents join profiles of the consultants is the recommendations of friends (16.5 percent).

It may be noted that the decision to become a member of company profile is influenced by an indirect recommendation from a friend: Social network website user sees in friend's profile that person became a member of the consultant's profile, and there is trend, according to the survey results, that every fifth member of the social network also connects to this profile. Meanwhile, when a friend sends a written invitation to the member personally, this instrument has a lower power.

Survey results shows the trend that women tend to join profiles of consultants or companies in order to get discounts or special offers to members of profile or make convenient product ordering procedure. The survey results show that men tend to do different choices, they join profiles in order to have consultation there, and overview provided detailed information about products, news items, updates and sales.



Figure 3. Main reasons to become member of profile (by gender)

According to the results of the survey 40 percent of respondents who are members of consultant profile did not notice impact on their decision to purchase; other 40 percent (including those who have already purchased and those who are going to) were influenced by the information provided in the profile of the consultant.

Most annoying features for the respondents on social networking profiles provided by consultants were "lack of relevant information", "Information is sent by private messages", "Provided information in the profile is not related with company or the production", it is 23,1 percent respondent answers for each of mentioned features. Less annoying feature was unstructured content (7,7 percent). According to previous results it was visible that respondents are interested in detailed information and they are searching for it on their own. In this case sent information by private messages might annoy most of people.

The most important features of consultant's profile for the respondents was detailed information about products (average is 4,1 points out of 5). Second feature which is not so far behind from the first one is structured and convenient content of the profile (4 points out of 5). Feature of "useful links for more information" and "active communication, rapid answers to the members of the profile" was similarly important to the respondents.

In-depth interview results

The qualitative survey results showed current problems that consultants face in multi-level marketing business. Difficulties can be summarized as follows:

- The image problem of multi-level marketing companies, because legal multi-level marketing companies are hardly distinguished from illegal pyramid business forms.
- Information dissemination among multi-level marketing members is quite complicated and it already requires apply new ways, which would enable quick and interactive communication online.

With further questions there was seeking to find out consultants approach to social networking application in multi-level marketing business. The opinions can be summarized as follows:

- Multi-level marketing development. Technological development leads societies to changes which bring different habits, sometimes custom and ways of communication. And multi-level marketing companies should apply new ways of communication in order to maintain and develop good relations among members
- Solutions for current business problems. As multi-level marketing becomes more public and visible for society. Social networks allow disseminate different forms of information including pictures, text, videos and including more people in discussions.
- Benefits of Social Networking for customers and consultants. Customers can find information about products or events easily, contact consultant, arrange meeting, and order products without going outside the home. Consultants can organize events, meetings and change its details easily, share ideas and information among each other.
- Future perspectives by using Social Networks for multi-level marketing business. Operating in social networks without building relationships in real life leads multi-level marketing business into collapse, because social networks cannot build so strong relationship as communication face to face, so that social networks can be only as inception point for building relationship in real life

Expert interview results

Expert interview results showed that in order to create effective and useful social networking profile consultants need to pay more attention for inviting interested and motivated people to become as

profile members and do not seek for quantity. Second the most important feature is detailed information about production and third - active communication and rapid answers to questions and various opinions of profile members. Least important, according to the experts, is the content of the profile and comments of other members.

Recommendations

Every strategy how to create representative profile on social networking website is unique and depends on features such as company targets, favorable idea of company image which could be created on the profile and so on. Thus, combining both the needs of users and consultants, analyzing statistical data, results of different surveys and questionnaires following recommendations can be provided for multi-level marketing companies:

1 Profile your audience. Multi-level marketing companies should look for "The Networker" type members, who are extroverted and have strong dependence on technologies. The "Networker" type can be influenced by the internet marketing the most, because usually those users are active public content creators.

2 Objectives of Social Network strategy. It is necessary to decide what company expects from a Social Network Strategy and set appropriate objectives. Multi-level marketing companies should choose "Soft" objectives which include a sense of community or member affinity, the perception of brand, or the degree of influence and reputation of organization has within its profession and industry.

3 Formulate your messages. Member-to-member free communication is one of the most powerful opportunities for associations to drive significant growth and to tap new sources of revenue while improving member satisfaction and engagement, but at the same time can be one of the threats, and opportunity for new brand to come, because customers can easily share their experiences, discuss about companies products and influence others.

4 Choosing Platforms. The selection of an appropriate technology platform is also important step, because ones are used by business people and others by ordinary individuals. According to the research Facebook has many members who are socially active and tend to join communities. In this case consultants should use social networks and offer interesting information for present and future customers.

5 Intellectual Property (IP). If company expose too little of information, then company is vulnerable to a competitor grabbing the audience by providing greater access to useful content on a rival platform. Social networks partially can solve this problem: the technology offers such a function as „information sharing among members only". But still some of interesting information should be offered even for not signed members in order to attract them.

6 Recruit Network Champions. While social networks play an increasingly important role in consumer-generated content, however, only a very small part contains of the developers. Members described as fanatics usually initiate new topics, new ideas, thanks to their activity the content is constantly updated and it will automatically attract the passive members, who search for the information they need. Multi-level marketing company should gather active and motivated consultants before, who could maintain consultations, renew information and show good online behaviour example for other members.

Summarized recommendations:

- Choosing appropriate social networking platform

- Community building, based on orientation to quality not to quantity
- Regularly renewed information on social networking profile
- Special benefits for social network profile members
- Available consultations
- Creating the basic and supportive profiles
- Interesting links and information related to company or its activities
- Provided detailed information about products and latest updates
- Friendly communication among members

Despite given recommendations there are some features that multi-level marketing companies and consultants should avoid in their social networking profiles:

- do not post information that is not related with the company
- do not send private messages by promotional purposes
- do not expand community artificially

Conclusions

After analysing literature, statistical data and conducted researches were made following conclusions:

- After interpreting results of the survey there was notices difference between customer reaction to ordinary consultants and multi-level marketing consultants/distributors. There was visible negative opinion about multi-level marketing (MLM) consultants and less social networking website members are willing to join MLM consultants' profiles that ordinary consultants. This image problem is caused of illegal pyramid selling structures where people were fooled. This problem could be solved by creating association of legal multi-level marketing companies where the list of all legal multi-level marketing companies would be provided.
- According to the in-depth interview research can be concluded, that multi-level marketing business cannot be implemented only through social networking. Social networks could be used only as additional tool for improving relationships with customers and organizational communication.
- Survey results showed that women are purchasing products directly from the consultants more often than men and women are more interested in multi-level marketing business. This means that marketing tools should be selected accordingly for female gender.
- Company should decide first what expectations from the social networking profile are, what is the result that they want to reach by using social technologies, what will result from enabling company members to communicate directly with each other and finally how do these objectives relate to your mission and vision.
- Social Networking websites are very popular nowadays where many individuals as well as organizations are available there. It is good chance for legal multi-level marketing companies to expose themselves in social networking profile and start solve problem of the low image.

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