

**MULTI LEVEL MARKETING AND THE  
IMPACT ON DISTRIBUTORS' LOYALTY  
OF (UN)SUCCESS FACTORS – AN  
APPROACH TO MEASURE LOYALTY**

Gonçalo Filipe Monteiro Grade

Dissertation submitted as partial requirement for the conferral of  
Master's in Management

Supervisor

Prof. Mónica Mendes Ferreira, Invited Assistant Professor at ISCTE Business  
School in the Marketing, Operations and General Management Department

September 2019

MULTI LEVEL MARKETING AND THE IMPACT ON DISTRIBUTORS'  
LOYALTY OF (UN)SUCCESS FACTORS – AN APPROACH TO  
MEASURE LOYALTY

**Gonçalo Grade**

MLM and the impact on distributor's loyalty

### **Acknowledgments**

I wish to express my sincere thanks for the help and for the patience applied to help me to finish this great step of my life to my supervisor, Professor Mónica Ferreira.

I also want to express my grateful to everyone who continuously believed me, despite the hard times I had to surpass, such as my friends Mafalda Gonçalves, Igor Jesus, João Periquito, Emanuel Barroso and Marcos Cardoso and to my family members Joana Pinto, Patrícia Mariano, Rita Grade, Conceição Grade and Carla Grade.

I want to give a special thanks to Cristina Mariano and Vitor Mariano which had extremely important in order to end this step.

And last, but not least, I want to thank me for all the hard work and for overpass so many obstacles to reach here.

## **Abstract**

Multi-level marketing industry besides on the 20<sup>th</sup> century has had a great expansion and some companies became huge players in their activity sectors, a lot of missing points still exists and remain to be explained. This study has the aim to explore MLM model, making a three-part analysis taking into account the stakeholders of MLM - companies, distributors and consumers. At the same time offering a way to multi-level marketing companies' managers can accurate the loyalty and the changes in loyalty that distributors have once a decision is taken by them (managers).

Using a sample with 149 answers, were tested the factors pointed in literature review having a negative impact towards the distributors' loyalty. The results discussion and analysis suggest that those "negative" factors for distributors loyalty towards the companies weren't negative. The empirical results show that they have a positive influence over the distributors loyalty, rejecting almost all hypotheses. The proposed model offers a tool to managers to better understand which the negative and positive factors and those are which have more and less influence over loyalty. Analysing the model, we also can identify differences in factors' interpretation over the active and non-active distributors.

**Key words:** word-of-mouth, multi-level marketing, network marketing, distributor.

## **JEL Classification System:**

M31: Marketing

M39: Other Marketing

## Resumo

A indústria do marketing multi nível apesar de ao longo do século XX ter tido uma grande expansão e algumas empresas que se implementam terem se tornado grandes “*players*” do seus sectores continua com muitas pontas soltas por esclarecer. Este estudo tem como objetivo abordar este tão pouco explorado modelo abordando os três agentes relevantes (empresa, distribuidor e consumidor), enquanto oferece uma forma dos gestores das empresas de marketing multi nível conseguirem ponderar o vínculo e a lealdade que os distribuidores têm com a empresa após a tomada de estratégias que em muito podem mudar o rumo da empresa. Usando uma amostra de 149 pessoas, foram testados os fatores que anteriormente tinham sido estudados e apresentados na revisão literária como de influência negativa para a ligação entre os distribuidores e a empresa. A análise dos resultados sugere que esses fatores, que se apresentavam como negativos para o vínculo e lealdade do distribuidor com a empresa, se apresentam como positivos para essa ligação, rejeitando praticamente todas as premissas assumidas. O modelo proposto oferece então uma forma dos gestores perceberem que fatores são negativos e positivos e quais têm maior ou menor influência. Analisando o modelo conseguimos também identificar diferenças entre a interpretação dos distribuidores ativos e dos distribuidores inativos.

**Palavras chave:** boca-a-boca, marketing multi nível, marketing de rede, distribuidor.

## JEL Classification System:

M31: Marketing

M39: Other Marketing

**Table of Contents**

**Acknowledgments** ..... III

**Abstract** ..... IV

**Resumo** ..... V

**1.Introduction** ..... 1

**1.1.Problematic** ..... 3

**2.Multi-Level Marketing**..... 4

**2.1.Distribution method and Stakeholders** ..... 7

**2.1.1.Companies** ..... 7

**2.1.2.The people's side** ..... 18

**2.1.3.Consumer's side** ..... 26

**2.2.Multi-Level Marketing and Pyramid Schemes**..... 32

**3.Marketing: a special issue**..... 35

**3.1.WOM**..... 37

**3.2.Brand equity and brand communication**..... 41

**3.3.Personality as a Brand**..... 44

**4.Conceptual Model** ..... 45

**4.1.Research Questions and framework** ..... 45

**4.2.Hypothesis Development and Conceptual Framework** ..... 47

**5.Methodological Approach**..... 51

**5.1.Sample**..... 51

**5.2.Scales and Measurements**..... 51

**6.Data Analysis**..... 52

**6.1.Sample characterization** ..... 52

**6.2.Hypotheses analysis** ..... 55

|   |    |
|---|----|
| MLM and the impact on distributor's loyalty           |    |
| <b>6.2.1.Unsuccess model factors hypotheses</b> ..... | 56 |
| <b>6.2.2.Loyalty Constructs hypotheses</b> .....      | 62 |
| <b>6.3.Liner regression analysis</b> .....            | 62 |
| <b>7.Conclusion</b> .....                             | 69 |
| <b>7.1.Major Findings</b> .....                       | 69 |
| <b>7.2.Academic Implications</b> .....                | 69 |
| <b>7.3.Managerial Implications</b> .....              | 70 |
| <b>7.4.Limitations &amp; Future research</b> .....    | 71 |
| <b>8.References</b> .....                             | 72 |
| <b>9.Appendices</b> .....                             | 79 |

## 1. Introduction

Today's economy is facing a huge transformation and its consequences are essentially an obvious response of its behavior. This thought might sound redundant, but nowadays the majority of scholars and economic agents see capitalism as one of the best economy structures regarding the social well-being. Basically, capitalism in a wide analysis has some outputs like social security, human rights, welfare state, public transportation, private property, etc. These examples represent the best to the overall well-being, but there are some negative consequences. The continuous looking for profit, the increase of competition between companies, the global economy, the automatization and several other things are leading us to an economy of performance.

The economy's evolution and the evolution of technology and capitalism led and is leading the firms and the employees in an opposite direction from the 20<sup>th</sup> century trend (more labor rights regarding timetables, vacations, wages, purchase power, extra-hours, amount of work). In today's economy the extra hours and the fact that the daily work has 10 hours, 12 hours, 14 hours, on a daily basis, is more and more common. Underemployment and low labor condition continue "*The labor market continues to recover, but a stubbornly high rate of underemployment persists as more than five million Americans are working part-time for economic reasons*" (Work, 2015). And if the employee doesn't agree with this continuous culture with a plausible reason, he/she might be marginalized or in some cases be fired.

This is happening mainly because of the competitive culture among the firms and countries that capitalism created, and the political rulers are starting to be watchful and to deal with this problem. The looking for competitiveness is becoming more aggressive while technology is increasing its responsibility in the productive structure. As we have seen in the recent decades, millions of people are being substituted by machines and pushed to unemployment around the globe "*45% of paid activities could be automated using 'currently demonstrated technologies' and... 60% of occupations could have 30% or more of their processes automated*" (Ben Schiller, 2016).

Additionally, there also is the aging and the consequences of it. The developed countries have been facing a decreasing in the fertility rate in the past decades and that created a scenario



MLM and the impact on distributor's loyalty

where the age pyramid became more and more inversed, arising the social security program problems, "*In 1950, women were having an average of 4.7 children in their lifetime. The fertility rate all but halved to 2.4 children per woman by last year*" we can read in BBC British journal (2018). These programs and their format of capitalization, where the young generations help the elder ones and where the working population help the non-working population is one of the biggest conquests of the civil rights of 20<sup>th</sup> century. However, this construction relies on a society that has way more working people than no working people (such as the elderly population) and this equilibrium is breaking. To face this problem and to control the social security deficits, governments, among several other things, are trying to diverse the income sources and extending the retirement age.

Since the middle of 20<sup>th</sup> century multilevel marketing became a way of doing business. The companies give the chance to its members to create a business where they buy the products /service at a production cost and sell it at a retail cost, "*Direct sales reps are generally independent, self-employed individuals who earn commissions and pay their own expenses and taxes*" (Crittenden & Crittenden, 2004). The products/services usually have some innovation on it and add value to the market. The people work with this value and earn money by selling it. This activity might be a good way to build an extra income and deal with financial issues. At the same time multilevel marketing allows people to start a small business selling a product/service which is similar to franchising, "*The last model [franchising model] that can be used as a basis for a business is Multi-Level Marketing.*" (Gregor & Wadlewski, 2013), where the distributors work with a brand but without the infrastructure behind a franchising model business, like a store or employees. Also, a company that has a multi-level marketing channel usually have a compensation plan, where people can help other distributors and by doing that earn a small portion of their results. This channel allows people to expand their business and their revenue to a scale that wouldn't be possible without this multi-level.

The characteristics that multi-level marketing channel offer to the people along with the expansion opportunity to the brands might represent a possible solution to the people to overcome some of the 21<sup>st</sup> century problems "*Why do people choose direct selling? Reasons include a flexible work schedule, a chance to own a business, and social interaction (it is a*

MLM and the impact on distributor's loyalty

*good way to meet people). Moreover, and perhaps most important, earnings are proportionate to performance, thus eliminating the artificial barriers often found in corporate cultures. Many view direct selling as a source of empowerment” (Crittenden & Crittenden, 2004).*

### **1.1. Problematic**

MLM is a three-part industry where main stakeholders are companies, distributors and consumers that mainly rely on word-of-mouth (WOM) to grow. In this business model, companies allow people (who are interested in the products or services) to buy its products and services at a producer price and sell to the final consumer at a retail price. Distributors can not only sell these products and services to final consumer, as they can provide the same opportunity that they had to others. By offering the same opportunity to others and help them to grow and be a better salesperson, they can get a small percentage of their *team*. Federal Trade Commission (US) in their *Business Guidance Concerning Multi-Level Marketing* in 2018 states the following (around MLM): *“Generally, a multi-level marketer (MLM) distributes products or services through a network of salespeople who are not employees of the company and do not receive a salary or wage. Instead, members of the company’s salesforce usually are treated as independent contractors, who may earn income depending on their own revenues and expenses. Typically, the company does not directly recruit its salesforce, but relies upon its existing salespeople to recruit additional salespeople, which creates multiple levels of “distributors” or “participants” organized in “downlines.” A participant’s “downline” is the network of his or her recruits, and recruits of those recruits, and so on.”* The main concern around MLM arises precisely here – the recruitment. Critics point MLM companies as illegal pyramid schemes while supporters say that there are differences. Either the stakeholders or this controversy will be studied afterwards.

Every companies want to achieve higher values of loyalty. If they achieve it, it represents a higher level of customer satisfaction and by consequence more sales volume. The biggest question is how do MLM companies’ managers can increase their customer loyalty since their interaction with the final customer is totally different and relies on distributors. To increase the loyalty of final consumers, MLM brands must increase the loyalty of distributors, distributors will be more engaged with their activity if they feel more connected with the

MLM and the impact on distributor's loyalty

companies, but how do they know the loyalty of their distributors? How can they improve some MLM characteristics in order to increase the distributors' loyalty? These questions will be further analysed and discussed.

## **2. Multi-Level Marketing**

The globalization and the arise of middle class allowed Multi-Level Marketing business model (also called Network Marketing) to arise in several sectors. Although pointed as complex, not transparent and dubious model, Multi-Level Marketing (MLM) is an open business model that can be explored by companies, members as entrepreneurs and enjoyed by consumers. Reviewing the concept explanation of Multi-Level Marketing found in Federal Trade Commission in their specific web page around Multilevel Marketing (2016) it is described as: *“In multilevel or network marketing, individuals sell products to the public — often by word of mouth and direct sales. Typically, distributors earn commissions, not only for their own sales, but also for sales made by the people they recruit.”*

One of the characteristics of MLM is represented by the quiet entrance in new markets, as long as, the competitors are masses (such as thousands of consumers) don't notice these firm's operations until its big enough to hurt and have an evident market share (and this can possibly explain some of the why the confidence in these companies is low) - transparency. Firms entry in new markets with distributors and usually with no advertising, only with Word-of-Mouth and implement and grown their market share by this way. This characteristic arises the common questions of “Is Multi-Level Marketing (MLM) illegal and pyramid schemes?” and “Why didn't I never heard about this company?”

The new millennium brought us a dynamic constantly changing economy opening new markets and closing others. The competition between companies became global and aggressive resulting in a new paradigm. Companies (with the competition) are being pressed by stakeholders to reduce the production costs, and one of those 'costs', that have a significant part of total costs, are the wages. The low wages and youth unemployment are one of the biggest problems that governments and political rulers have to deal with in today's economy. As we seen among several other causes, these problems are related to the Social Security deficit and delaying of retirement age and to the competition and technological innovation. These pressures created a problem for the company and their workers, pressure

MLM and the impact on distributor's loyalty

of being a profitable company on one hand and on the other good and well-paid jobs. MLM can be part of the solution offering advantages (having also disadvantages, discussed forward) for the companies that want to increase their awareness and presence in some markets with low costs and having advantages for the people who want to become distributors and benefit of an implemented company. Regarding their advantages to companies and people, MLM is possibly the best business model for the performance economy of 21<sup>st</sup> century for both (companies and people), a more profound analysis will be held on later.

Multi-Level Marketing industry can be seen as a three-part industry where we have: the company side, the people/business side and consumer side (as demonstrated in figure 1 - Claudia Groß & Dirk Vriens, 2017)

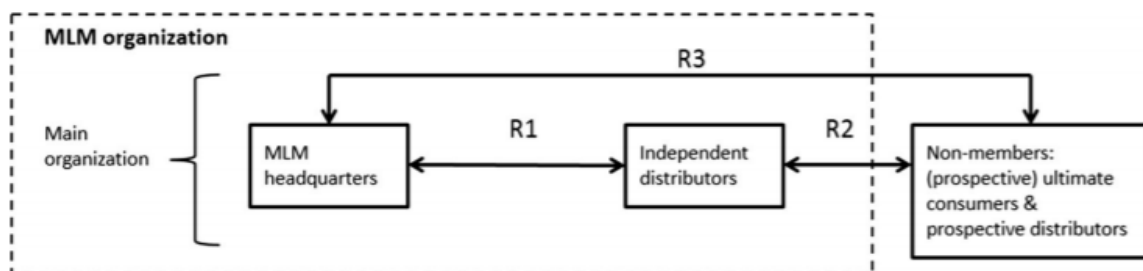


Fig. 1 – MLM companies and their structure

The company side will explore the advantages and disadvantages that companies have using this channel to grow and implement in the market. The people side, where everyone can start their small organization inside of a company and be remunerated by the sales that occur in their organization according to a compensation plan previously known. And the role of the consumer here and how they interact with MLM companies and distributors. A more profound analysis will be found regarding these three topics exploring the different roles and challenges.

MLM arose decades ago, however the origin of the industry and business model is discussed even today. It is pointed to have its first steps in 30's, 40's and 50's of 20<sup>th</sup> century. The journey began (possibly) with the first pointed company functioning based on these rules

MLM and the impact on distributor's loyalty

established by William Casselberry and Lee Mytinger - California Vitamin Company. Years after, with the expansion and a new headquarters California Vitamin Company changed its name to Nutrilite XX Vitamins. Direct selling had a huge expansion in the first decades of 20<sup>th</sup> century and Nutrilite XX Vitamins has its growth supported on that. In 1941 the company implemented the first marketing plan (compensation plan). Its main goal was to encourage distributors to work aimed at sales, searching for and training new employees. On this basis distributors could get 3% from sales of newly formed groups leveraging their income. With this new strategy sales grew and so the profits to distributors who were more eager to train new partners. In 1959, two partners — Richar De Vos and Jay Van Andel — left the company and established their own company — Amway. They started production of own goods. They worked out a special rewarding system, which was characterized by very fair division of profits, proportionate to the contribution of work to the expansion of the company. After a few years of rapidly grow, Amway Corporation took over Nutrilite. At more or less the same time another group of distributors left Nutrilite and formed Shaklee company. The difference between them concerned mainly the products they were dealing with. On one hand Amway dealt with household detergents, Shaklee on the other dealt with nutritional and food products. The success of Nutrilite and its marketing compensation plan attracted the attention of other companies like Stanley Home Products, Home Interiors and Gifts, Mary Kay Cosmetics, Avon, etc, to the Multi-Level Marketing system. In the 1970's Multi-Level Marketing system came also to Europe. In 1969 British company Kleeneze dealing with direct distribution of goods, looking for new ways of selling products, recognized the method of Amway Corporation as very good and was the first to start using it. In 1973 Amway (UK) Ltd., as well as Shaklee appeared in Great Britain. Amway's model was replicated by other companies throughout the world and the company grew so much and grab such attention than in late 70's had to face a gigantic case in the court to prove the sustainability of its activity and clarify the ethical way of working on, in order to prove that Amway didn't represented a pyramid scheme - In re Amway Corp. Somehow Amway proved the existence of MLM as a way of business and with this case and Amway is known as the pioneer of MLM and had the international attention when the legality of MLM was clarified in a legal case around it. Since then several companies followed this business model and some have a good market share. Today this model covers thousands of companies around the globe, and its size (MLM

MLM and the impact on distributor's loyalty

industry) grew in the past years and decades. It generated in 2017, according to World Federation of Direct Selling Association (WFDSA), \$189,641 USD million dollars and grew 1,6% when compare to the previous year. On a 3-year analysis, industry grew 3,7% (2014-2017). By regions, industry showed a similar picture having all regions round the globe with a positive grow of sales on a 3-year analysis. It is important to state that this data has not only multi-level channel such as direct-selling channel.

## **2.1. Distribution method and Stakeholders**

MLM is a product distribution method that put the product (and services) directly on the hands of the consumer without intermediaries *“Typically, network marketing strategy is implemented via a structure or system in which the manufacturing company chooses to distribute its products and services directly to its customers through a network of distributors”* (Selladurai, 2012). This distribution method connects three major stakeholder companies, distributors and consumers. Companies usually produce the products or provide infrastructure to the services can be provided. Distributors take that products and services and promote them to their friends and family. When the sale occur, distributor collects his/her money (previously known and established) by doing that promotion. Consumers receive the products and services in wherever and whenever they want. Additionally, a multi-level network and reward is offered to distributors to motivate them to help their teams to sell more.

### **2.1.1. Companies**

Multi-Level Marketing is a proven business model and several companies in the last decades used it. Polishop, for instance, is one of those examples, it is a Brazilian firm that has a diverse network of sales point, such as stores, catalogues, online store, multi-level marketing channel, among others. Oriflame and Yves Rocher are two other examples of companies which operate not only with multi-level marketing channel, we can see their products in some shelves in stores. There are other examples such as Avon or Amway that only use multi-level marketing channel to implement and sell their products.

One of the tasks done by distributors in MLM is to sell products and services. Customers have the opportunity to *“see, touch, and test a product at their own leisure, often in their own homes”* (Crittenden & Crittenden, 2004) and buy them if they to do it. All types of products

MLM and the impact on distributor's loyalty

and services are sold by direct selling channel and include “*such traditional fare as cosmetics and skin care, vacuum cleaners, and household cleaning goods. Non-traditional fare includes such products as air purifiers, wine, and lingerie*” (Crittenden & Crittenden, 2004). The most sold product and services through direct selling vary from region to region according to the consumption patterns. According to WFDSA (World Federation of Direct Selling Association) in 2018 the category of Wellness and the category of Cosmetics & Personal Care represented 64,4% of the sales combined. In the Asian market, Wellness is the number one category and represents 41,2% of the sales; while in America the most sold set of products are Cosmetics & Personal Care with 34,6% of the market and in Europe 32,6% of total sales are from Wellness category. Africa and Middle East have no global data.

In today's economy companies hold an important position, more than ever before. Among them multinational ones are those who have a word to say in some countries and sometimes in regions or even worldwide when concerns to created wealth. Competition is more aggressive than ever, and companies seek for building brands with loyal customers without compromising their budget. A lot of efforts are done to achieve a high level of loyalty, campaigns in shopping centres, gifts, discount for loyalty, loyalty cards, TV ads, outdoor, among other, but all companies can use that marketing tools and for that reason these actions are always limited. In MLM channels, companies instead of using the common tools to higher the loyalty and sales they use the people create WOM and pay them for the work that they do on the field, receiving money through a compensation plan motivating the distributors to spread the word and loyalty, and that's why MLM companies have always a group of people which are devoted to the brand and 'wear the shirt' wherever they go. These high levels of loyalty reflect on the revenues of the companies and that why there are countless examples of companies that in few years expanded to dozens of countries in different continents like 'Jeunesse Global' that is present in more than 80 countries in 5 continents and it was founded in 2009 or 'Amway' that since its consolidation spread and grow in less than 20 years to several countries all over the world.

Despite the proven business model with decades of implementation, hundreds of companies all over the world and millions of sales in all continents the MLM business model still has its advantages and disadvantages to companies.

MLM and the impact on distributor's loyalty

The advantages to companies by using MLM as a business growing model are discussed below.

As we seen previously, MLM uses **WOM recommendation** as its pillar. WOM is probably the best accurate characteristic that we can find when talk about MLM. Using a MLM channel to grow can be a great path to create the awareness and virtuous cycle that every company are looking for. Having committed distributors is the first step to create that "virtuous cycle" of WOM. Once created, loyalty and WOM together work like an oiled engine hard to stop and company by consequence multiply its sales in few years. This is the power of WOM, and this power is even stronger in a MLM channel.

The use of loyalty programs by companies has become a common marketplace phenomenon (Henderson *et al.*, 2011; Uncles *et al.*, 2003), and some empirical studies have demonstrated their positive impact on **customer loyalty** (Leenheer *et al.*, 2007; Liu, 2007). Since the late 1980s, many firms and researchers alike have claimed that customer loyalty is positively associated with profitability (Jonas Colliander, Magnus Söderlund & Stefan Szugalski, 2016). MLM companies are well known regarding their loyalty programs where they remunerate distributors more than one level (multi-level) of consumers and distributors in their network. Literature showed that a multi-level reward program has positive effects on loyalty either on top or second-tier members. Jonas Colliander, Magnus Söderlund, Stefan Szugalski (2015, pg. 169) stated: *"Given that an important objective of a multi-level loyalty program is to produce more loyalty for high-level members than for lower-level members, our results support an equity-based design. At the same time, however, second-tier members typically out number top-tier members and represent an important source of revenues. A fruitful loyalty program should therefore be capable of producing more loyalty among top-tier members without substantially reducing loyalty among second-tier members. And our results suggest that the potentially negative loyalty effects of exposing second-tier members for allocation of top-tier member rewards seems to be relatively low."* MLM companies have always a reward program where distributors receive money by their selling and a percentage of their team's sales (according to their compensation plan, previous established). This multi-level reward structure, as has been demonstrated by literature, increase the loyalty among the members increasing the sales and by consequence the profit. MLM enable not only the grow



MLM and the impact on distributor's loyalty

in sales but also in awareness and loyalty and by consequence the good will of the company. Additionally, MLM firms while they work with a different supply chain (Manufacturer [MLM firm] – Distributor – Consumer) works differently regarding the loyalty of their customers (increasing it) - using some unique and innovative strategies in network marketing blended together with some sustainable supply chain management practices, an organization can pursue environmental, social, and economic goals which lead to significant and strongly desired outcomes such as customer satisfaction and customer loyalty (Raj Selladurai, 2012). Awareness and loyalty in 21<sup>st</sup> century, are one of the targets to achieve by the heads of companies and those which grow in MLM have a tremendous loyalty from their distributors and consumers. Loyalty and low-cost awareness are characteristics of this industry, and they have impact in sales and in the growing of the company.

Since in MLM, people are reward by the sales and their teams' sales, consequently people only get paid when they present results (usually sales). This turns MLM channel an efficient way to reward the workforce. This model is **efficient** for the company because their cost structure regarding the workforce are totally variable.

MLM companies are characterized, usually, by the **innovation** and quality offered in their products, like Vorwerk with 'Bimby' – the best-known kitchen robot, Rainbow with its vacuum cleaner, Jeunesse with its powerful anti-age cosmetics or Herbalife, where once presented an innovative way of being healthy, among others. Based on their research, M. Rezvani, S. Ghahramani and R. Haddadi (2017: 35) stated “*continuous relations between independent vendors and identify customers' instant and future needs, and finally helps the business innovate in the products.*” This innovation requires a workforce to help consumers to change their preconceptions towards the product – the distributors, who are informed and loyal to the product and generate good WOM recommendation. Once again loyalty is important, where the alliance between loyal distributors and a clearly innovative product can crush the competitors with the easy and exponential entrance in the market by the MLM company.

Theoretical foundations and the study made by M. Rezvani, S. Ghahramani and R. Haddadi (2017: 35) “*demonstrates that man-to-man or network marketing leads to reduction of advertisement, distribution, and market research costs, costs concerning test of goods, sale*

MLM and the impact on distributor's loyalty

*unit training costs, costs concerning embellishment and decoration of the store showcase, and human force costs, which has been significantly effective on reduction of their costs and increase in their money supply.*" MLM has a smaller supply chain because there is way less intermediates, only the distributor between the brand (producer) and the consumer increasing the **profit margin**. Additionally, as was mentioned MLM companies usually have innovative products or services in their baskets and when the masses understand the value of that innovative product or service, they tend to buy it (like Tupperware) paying more than the average price to a similar product or service, increasing the margin of these companies. Along with the smaller supply chain, MLM has low-cost around the product and its selling. These two characteristics help the company to increase its margin and profits.

As MLM channels relies on distributors to implement and massify the products or services of a specific company it can create a gigantic market share in some countries or markets without being noticed. The network of distributors is responsible to sell and increase the awareness of that specific company and products/services. In the end MLM channel can implement a company in a market where it could have no presence (**invisibility**) at all and can create sufficient market share to hurt the competitors.

There are some products that for being innovative or complex that cannot be advertise like the others. A common product or service can be understood in 20 seconds through an ad on TV, however there are some that for its innovation that cannot be advertised in 20 seconds and require a longer explanation – **demonstration**, to help the consumer to understand how the product/service work and be more willing to buy it. According to M. Rezvani, S. Ghahramani and R. Haddadi (2017: 35) research "*network marketing proved very useful in identifying and introducing goods and their quality and efficiency to users. Also hold that in network marketing, people provide their friends and acquaintances with information concerning products or services by verbally supporting them and recommend that they use the products.*" For instance, regarding its innovation and new features, 'Bimby' in the beginning for people to understand how the kitchen robot worked needed demonstrations, as many other examples, like 'Rainbow' or 'Tupperware'. Otherwise it would be hard for the consumers understand why that machine is more expensive than others and what are the

MLM and the impact on distributor's loyalty

benefits of having it. The demonstration of the product clarifies all the doubts and help the consumer to take a more informed purchase decision.

As has been discussed MLM is an industry that relies on the WOM to grow. Having a network of distributors lead inevitably to a business growth through the network's contacts and one way or another **new markets and new countries** will be explored by MLM companies. It is important to remind that although the network can expand to specific country/market it might not lead to open an office there. Additionally, as MLM grow with their network they collect a tremendous potential since the internationalization gets quicker – for instance, Jeunesse was founded in 2009 and it is present in 88 markets/countries (according to their website). In ten years, it grew to the 4 corners of the world. Or myWorld, the holding of Cashback World (formerly Lyoness) in 16 years is present in more than 50 countries with operating offices. The potential is enormous, and the internationalization costs are smaller as the company can operate in a market with a small group of distributors and a small group of employees, an office and all the legal affairs dealt.

Distributors, marketers, vendors or entrepreneurs have a different kind of work relation with the company when compare to employees. As the distributors run their activity and earn their money based on the reselling of the products, they have a more profound interest on the running of the company as they have a position closer to shareholders than the employees. These interests tend to lead a deeply relation, resulting in **affiliate relations with distributors** as we can see in the SWOT analysis done by 'SWOTAnalysisDB' – a specialized entity in SWOT analysis. When a company has an affiliate relation with a group the course of the business concern to distributors and the distributor's activity concern to shareholders. This creates an align trajectory to the company and every step are done quickly. Exploring these relations might be a good solution in order to overpass the competitors and increase the company's market share.

MLM firms do not only sell exclusive brands but also produce them. As mentioned by 'SWOTAnalysisDB' in their SWOT analysis to MLM business, the biggest MLM firms have their own product manufacturing (Jeunesse for example has its factory in Dallas, Texas). **Developing and manufacturing the products in-house** has some advantages and disadvantages, but in case of MLM having its own production has additional advantages.

MLM and the impact on distributor's loyalty

Kojun Hamada (2010) demonstrated that “*relationship between the choice of outsourcing versus in-house production and product differentiation in a Cournot model with cost uncertainty and asymmetric information under outsourcing. (...) degree of product differentiation and the intensity of competition do not affect the choice of a manufacturer between inhouse production and outsourcing.*” This implicates that there is a no clear advantage in choosing outsourcing in a cost uncertainty and asymmetric scenario, which represent the world economy scenario. As MLM companies rely their grow mainly on the sales of their distributors and the distributors, as has been demonstrated, are willing to ‘wear the t-shirt’ by using and promoting the company’s products or services. However, this mainly happens because that specific set of products are exclusive, and the competitors cannot imitate them (like Herbalife with its Formula1 or Vorwerk with Bimby) This exclusivity and this ‘wear of the t-shirt’ might be lost when the company possibly choose to outsource the manufacturing and simply apply the brand. The in-house production gives the power to company to control all supply chain (in MLM firms even the deliver), avoid leaks of information regarding the R&D, control their prices with more accuracy and to have the infrastructure and the ‘know-how’ to continue to innovate and expand their products or services’ bundles.

World is changing faster than ever, the globalization brought huge fluctuations to economy and unpredictability. Despite this, world’s economy has grown in the last decades, specially the emerging economies. **Global economic growth** leaded to a fall in inequalities and International Monetary Fund affirm that in their “Inequality in Good and Bad Times: A Cross-Country Approach” report. We can read “*over the last three decades, real GDP per capita nearly tripled in developing economies, while inequality as measured by the Gini coefficient fell by about 20 percent.*” Gini’s coefficient is a well-known index used to measure the inequalities across the population quartiles (differentiated by their income). Additionally, the authors mentioned a conceptual framework (figure 2 – right below) that states that inequality in individual wages (income) leads to inequality in individual earnings, that leads to inequality in household earnings, to inequality in household disposable income and then consumption inequality. Once the inequality is corrected, the income is higher and so the consumption equality and the purchasing power. As we saw, MLM firms commonly offer innovative products or services with a higher price when comparing to competitors. These

MLM and the impact on distributor's loyalty

high prices demand purchasing power and the last decades trend (specially in developing countries) might be a great expansion opportunity to MLM firms.



Figure 2 - Conceptual framework of consumption inequality

Source: International Monetary Fund - "Inequality in Good and Bad Times: A Cross-Country Approach"

According to Statista (a statistical website reference) the share of e-commerce in global sales represented 10,2% in 2017 representing more than 2,3 trillion dollars and it has an increasing trend predicted until 2021 (last year showed). It is predicted that in 2021, e-commerce represents 17,5% of global sales and more than 4,8 trillion dollars in value. This evolution might represent an opportunity to MLM firms to grab more customers in **online world and online market**, and to increase their loyalty while increase the sales.

The disadvantages to companies by using MLM as a business growing model are below.

As been mentioned and it will be further discussed, Multi-Level Marketing is a channel to companies to implement and grow their businesses. However, these companies face in numerous challenges when concerns to the sustainability of their MLM channel, where they are often called and investigate as a possible 'pyramid scheme' or 'Ponzi Scheme' – having its **image blamed**. Almost every MLM companies face these investigations related to if they are or not pyramid schemes. These investigations, even after the verdict – when companies prove that have a legal MLM business model, have impact in the businesses of these companies and in the public's trust. Companies once chose the MLM channel to be implemented and sell their products deal with two types of burned image: the one which is shared by all MLM companies, where the public automatically call MLM companies as a pyramid or "one of those things" and the second when the company is investigated by authorities if they are or not an illegal scheme. In this second case, if a company is truly

MLM and the impact on distributor's loyalty

implemented by a MLM channel with a MLM compensation plan and if the company had into account a creation of legal and sustainable compensation plan, then there is nothing to fear. Despite they can clarify these accusations, these investigations will break the trust built and usually is hard to surpass these damages. Some companies cannot overpass the burned image and fall, others can but will have to face these accusations forever.

Every activity needs professional people to thrive. In fact, the continuous learning and formation is a goal that all companies try to give to their work force and that doesn't happen with the needed frequency in MLM companies due to the **lack of skills by distributors**. This continuous formation will avoid future mistakes and allow the company to be one step forward when comparing to the competitors or at least to be at the same level. In today's economy there is no room for those companies that don't promote the continuous formation and learning by doing. When a person starts its activity in a MLM company, he/she might have a light formation and sometimes this doesn't happen. This lack of training happens by several reasons regarding the personal efforts, difficult task, poor upline (distributor who helped the other to begin his/her activity) support or lack of materials from the company to people educate themselves. The lack of skills has some specific consequences regarding people's activity, but when the focus is the consequences for the companies we can see that the misinformation is the result – as stated by Victoria L. Crittenden and William F. Crittenden (2004: 42) *“Many companies send their new sales reps into the field almost immediately upon hiring them, after only a cursory training program.”* A low skilled distributor will generate disinformation regarding the industry – the distributor won't be able to explain how the MLM industry works, won't be able to explain the compensation plan and how hard and the amount of work which is might needed to achieve some targets and levels, won't be able to explain the major characteristics of the products or services, among other consequences and misinformation. The lack of training and skills of the distributors is a cause of the disinformation. Companies will suffer in their reputation, their products, even when they have the top quality of the market will be named as 'miracle products' losing the credibility, companies will have to face accusations of fraud by some new distributors that make a decision based in false explanations and expectations passed by low skilled distributor, the sales won't grow as much as expected, etc... All this because there is no code of ethics and no standard explanation and training to the distributors.

## MLM and the impact on distributor's loyalty

One of the weaknesses that MLM firm have inevitably to deal with is the retention of distributors. One major true of MLM is that “is easy to start our activity”. However, exiting and ending the activity is equally easy. Identifying that the **retention** is a clear weakness in a MLM company, Victoria L. Crittenden and William F. Crittenden (2004: 44) stated “*firms need to identify and principally select sales reps based on the attributes ascribed to their best performers. Such improved targeting and identification would lead to greater organizational fit and better retention.*” A good compensation plan might also decrease these renunciations and increase the retention rate.

New millennium brought us a universal internet and with-it online stores and online warehouses. While the customs taxes and borders are being reduced the global trade grew in a rapidly way. According to ‘Statista’ e-commerce represented 10,2% of the global retail sales in 2017 comparing to 7,4% in 2015 and the prediction is to attain 17,5% by 2021. In volume, were registered 2,3 trillion dollars in sales in 2017 and the expectations to 2021 are 4,878 trillion dollars in sales worldwide. This trend shows us a clear view of what will be our future regarding online purchases as consumers. Online purchases grew in volume and in weight regarding global retail sales, among several factors (such as economical, technological, political, social, cultural), because of the **competition** and by consequence cheaper products and products from all over the world with higher or lower quality can be placed in our houses within weeks or even some days. This **convenience** challenges the prices and (usually) top-quality products or services presented by the companies, which are also implemented by MLM channel, lowering their profit margin. In addition these interconnections allowed some of these competitors’ products and services to be placed in the shelves and in expositors in the Great Warehouses where the consumers can find some similar products or at least products or services with lower quality at a low-cost price, like for instance in Portugal Bimby’s competitor “Yummy” is sold in the biggest hypermarket chain by 429€ while Bimby is sold by 1275€ and the products or services desired at the moment. This competition either from online stores and from great warehouses is a big challenge that distributors and MLM companies face now and will face in the next years and decades.

MLM and the impact on distributor's loyalty

MLM companies usually have few distribution channels, through their distributors and sometimes through their website consequently the products and services have a **limited mode of availability**. For instance, if a consumer wants to buy a product from Herbalife the only way to do it is through an independent distributor, while Amway, for example, allow a consumer to order anything from its website. This exposure limits the action of these companies and the ability to compete with other companies which sell substitutable products in more channels (online, supermarkets, local markets, events, public relations, among others). Although MLM is a proven business model, it is still controversy and like every other business models and industries, companies that choose MLM to grow face advantages and disadvantages that are discussed below. Despite a common topic and the existence of some studies around it, mainly the business opportunity side – distributor side – the company side is not that explored, and it has few academical research around it.

Despite all, MLM firms usually try to operate according to laws and with a clear tax relation with tax authorities. However, with all the doubts and divisions that industry still arises, **laws and regulations might change** and block the MLM firms' operations. This is the main threat to a MLM firm activity and the MLM corporate must work closely to authorities to clear all the misinformation that might arise. Additionally, MLM firms and MLM associations and federations have to continue to work in order to clarify their activities and wipe-out these doubts regarding the way how they implement (Multi-Level Marketing).

Stability of prices is one of the keys to increase the economic agent's confidence. MLM firms like every other have to build that confidence and that construction is even more important in MLM firms and relies more in prices and corporate stability due to continuous legal challenges. For instance, a nutrition product, a protein bar that also relies in corn to be made, have its price intrinsically linked to the price of the cereal, if the cereal's price goes upward, the protein bar price will tend in the same direction (**increase in price inputs can cause upward pricing**). This price rising has a particular effect in MLM firms since every steps that companies done are scrutinized and everything counts (more) to firm's confidence. Distributors like everybody else want to increase their income and once they see that they could earn way more money with the exact same amount of work in other MLM firm selling the same (or not) set of products or services they could leave the company and take their team



MLM and the impact on distributor's loyalty

with them. These moves might be fatal for a company once they can generate high percentages of falling in the revenues and profits.

On the consumers side there are also **low switching costs** because, competitors offer similar products and the emergence of e-commerce, switching cost is very low and thus brand loyalty reduces.

### **2.1.2. The people's side**

Despite industry be the same, the challenges and characteristics of MLM companies are not the same as the distributors. The following analysis will, for that reasons, be focused on the distributors side of MLM and all its environment. MLM might represent a good opportunity for those who want to create an extra income and are willing to our effort for that. Although this could happen, it is important to hold that the world is changing and MLM industry framework (legal, functional and so on) is not the same as before. The challenges that people face today are not the same as people faced 30 years ago for instance and this can open a window to view the industry from a different angle and how MLM can fit in this new reality and paradigm. However, there are some characteristics that remain the same, people who want to build a network business in MLM have to develop specific skills (like in every activity or job) in order to accomplish the proposed targets.

Multi-Level Marketing allow people to start a small network business inside of a company, according to Prof. Bogdan Gregor and Aron-Axel Wadlewski (2013), there are three ways to start a business: the first one is the 'typical business' where those who want to become entrepreneurs have to invest huge amount of money in order to create a business competitive enough to survive against the competitors. This type involves also skilful implementation to be successful as possible. However, creating the own business have a lot of uncertainty regarding the competition, having 'right idea', returning of investment, among other possible obstacles; The second one is based on a 'franchising agreement'. In this case the entrepreneur agreed to run a business with operations and processes previously detailed. Despite of this, gathering the advantages of an established brand have some costs – blueprints that entrepreneurs pay to the brand shareholders in order to sell the products and services provided by them; The third is the "*fastest-developing and still the least understood methods of introducing products to the market*" (Don Faila, 1996) – 'Multi-Level Marketing business'.

MLM and the impact on distributor's loyalty

In MLM people (the entrepreneurs are usually called as independent distributors) can implement their business with a small investment or sometimes without it diminishing the risks. This can happen because in MLM distributors don't have to invest in fix capital such as a headquarters, offices or room, to implement the business, only in stock. Additionally, *“taking into consideration low risk associated with absence of the need to have own concept, large capital and costs associated with hiring employees, it is possible to conclude that this is the safest business model”* (Gregor & Wadlewski, 2013) – this affirmation will be profoundly discussed further.

The advantages to people to start as a distributor in a MLM company are below.

As has been profoundly discussed one of the main pillars of MLM is **Word-of-Mouth recommendation** and that couldn't be one of the main strengths of a distributor's business *“WOM recommendation is intuitively the best that we consumers can have to understand better a specific product or service.”* Solomon (2015). Additionally, WOM was demonstrated as a highly reliable tool to promote any kind of business, brand, products or services. Applying this power and advantages to distributors' businesses is obvious that one of the strengths of any personal business activity in MLM is the WOM recommendation.

Although not always, MLM companies offer products and services with high margins of profit along with high quality. For instance, the vacuum cleaner *Rainbow* for a normal consumer costs around 1999€ the basic machine (without extras) while top price vacuum cleaner (with similar characteristics [e.g. not a robot]) in a retailer cost around 500€. Despite the quality might be higher, having these differences in prices when compare to retailer brands increases the margins. Following the **high margins** are the commissions. More margins lead to more commissions to distributors and that is a strength in a distributor's business.

One of the main activities of a distributor is the **products or service demonstration**. These demonstrations normally happen because there are some products that need an explanation on how they work due to its complexity or innovation. Consumers seek for information before a purchase and the demonstration might provide the needed information in order to make the consumer to buy the product or service. With the demonstration, customers are given the opportunity to see, touch, and test a product at their own leisure, often in their own

MLM and the impact on distributor's loyalty

homes. The products sold are diverse and include such traditional fare as cosmetics and skin care and non-traditional such as wine for example (Victoria L. Crittenden & William F. Crittenden, 2004). For this reason, information provision is a pro and strength of MLM business.

While a distributor, he/she started his/her own network business. As has been previously studied, a MLM business has some characteristics similar to classic business and some characteristics similar to a job (gathering some of the advantages and disadvantages of each one). Prof. Bogdan Gregor and Aron-Axel Wadlewski (2013: 5) stated *“this model, compared to others, is characterized by very small level of risk or even absence of risk. This results from the lack of need to invest financial assets to implement a concept or buy an expensive franchising license. [...] Additionally, this model doesn't require costs associated with hiring employees, because work in the company is based on voluntary membership.”* Basically, when it comes to MLM, the distributor can start their business activity with a small amount of money (or sometimes with none) – **low start-up investment** – and build his/her network and increase the sales volume in order to be compensated by his/her efforts. In MLM distributors when a distributor starts, he/she can take the **existing infrastructures** to support her/his activity. He/she can order materials in his/her language in the companies' offices throughout the world, order sets of products in the back office (member website, where the distributors can see everything related to his/her activity like the sales volumes, number of distributors in their teams, and other specific company and business features), meet with prospects in the company's office and more. Products and services are invented, and in the market, and distributors only have to redirect them to consumers *“This is possible thanks to operation based on recommending ready products which in many cases have already gained popularity on the market”* (Prof. Bogdan Gregor & Aron-Axel Wadlewski, 2013).

Starting the distributor's activity in a MLM firm doesn't mean a signature of contract with a timetable. When a distributor starts his/her activity, he/she can have another activity (like a job) and he/she is free to apply the amount of effort and hours according to his/her available time. In their investigation, Victoria L. Crittenden and William F. Crittenden (2004) identified the reason why people continue to choose the direct selling method to earn money. Regarding the **time flexibility** they stated *“Why do people choose direct selling? Reasons*

MLM and the impact on distributor's loyalty

*include a flexible work schedule, a chance to own a business, and social interaction (it is a good way to meet people)" (Crittenden & Crittenden, 2004: 40)).*

MLM is an industry that has some different characteristic than the others. Contradicting the normal trend of labour market where there are discrepancies between the workers in similar functions doing similar jobs, MLM offer a clear **no shortcut career opportunity - meritocracy**. In labour market we are dependent of not only our performance but also of several other singularities. For instance, women in Portugal, according to CITE (*Comissão para Igualdade no Trabalho e no Emprego* – Commission for Equality in Work and Job), a governmental institution, earn 19,9% less than men in equal job positions in 2015. This inequality is beyond the women's hands and not matter how hard they (as population) work, at least in the next years, they will earn less than men. In MLM every distributor when start a his/her activity in any company he/she has the same compensation plan, the same set of products and services and the same business opportunity as everyone else. Basically, in MLM the earnings are linked to performance and this eliminates the artificial barriers often found in corporate cultures. This is considered as a source of empowerment (Victoria L. Crittenden and William F. Crittenden, 2004). Additionally, one of the main characteristics of MLM businesses opportunities is the voluntary membership as a distributor. Since is voluntary, that means that everyone regardless their past, studies, experience, abilities, available time or his/her financial condition have the possibility to star his/her own activity as a distributor in a MLM company and achieve the expected success. As there are no requisites and meritocracy are the queen in MLM, everyone can build a successful business if he/she work in order to. Although this is a reality, only the strongest (those who work hard, develop their skills and that are more persistent) achieve high steps inside MLM companies, Rattana Hiranpong, Pasu Decharin and Natcha Thawesaengskulthai (2015: 28) stated "*potentially successful person in the network business possesses the following related components: 1) unsatisfied valued life-desire discrepancy and possible alternatives are inefficient at reducing or closing such discrepancies; 2) high Phalanuphap (power to move people); and 3) being assertive despite obstruction from significant others.*"

Like every other businesses and activities throughout the labour market, distributors have to have training in order to have the right skills to grow on their businesses. This **training** is

MLM and the impact on distributor's loyalty

continuous in MLM companies and there is a huge effort from the upline (in MLM businesses, distributors can enjoy from a strong support from their upline since they want to people achieve better results because they will too by consequence) to help their teams to grow in skills and by consequence in sales *“Training programs and materials were abundant and detailed for many of the firms we studied”* stated Victoria L. Crittenden and William F. Crittenden (2004: 42). Once involved in a MLM business, distributors have access to a continuous training program provided by either upline distributors or by the company (corporate). Additionally, this represents a challenge and an opportunity to distributors since it requires effort. Being a distributor might be a great opportunity and activity to build up an extra income. However, is not that easy to be successful and in order to be so people have to develop the needed skills to overcome the challenges in their path. There are several areas to be developed *“sales force development requires recruiting, selecting and training people, providing field experience to reps, and maintaining an ongoing assessment, enhancement, and retention process”* (Crittenden & Crittenden, 2004). With such challenges, to succeed, people have to develop their skills and work in their relational and communication skills. Work in MLM company would be a great move and a great opportunity to people challenge themselves, be out of comfort zone and develop new (wide) skills and abilities.

MLM allow anyone to start their own businesses inside a company with a huge infrastructure already implemented and additionally gives to distributors a **“limitless” compensation plan**, since they can build an organization with “infinite” sales volume – basically there are no barriers. To build this “infinite” business, distributors have to work in order to achieve high sales volumes.

As previously reviewed, MLM companies have a great **facility to enter in new markets** since they spread and grow through people's network. Regarding the opportunity of internationalization to distributors, there is a tremendous opportunity since the costs of it are few because if the company has already an office there is no constraints to that expansion and distributors are only responsible to train and provide the needed support, materials and documents in order to expand their businesses. If there is no materials or offices, it is important to press the company to open an office in that new country (with zero infrastructure

MLM and the impact on distributor's loyalty

investment from the distributors) and to translate the materials to open the possibility to grow in that region or country.

**Global economy expansion** is not only a great opportunity to MLM companies take the wave to expand their businesses but also to distributors. This expansion has more expression in developing countries where the economy growth is higher and stronger and this gives the opportunity to MLM agents (companies and distributors) look to these countries with different eyes. For these reasons, distributors have a huge opportunity to take while developing their network of sales and increasing their sales volumes.

In the last decades world became more digital and with that the connection between people is now easier than ever before. This means that people can communicate much faster and business can be controlled with a more precision even from outside thousands of kilometres away. This premise is also applicable to MLM companies and to their distributors where people can build up their businesses all over the place and control all important parameters needed. In response to how the **social media and online world** changed MLM companies Hannah Steinkopf-Frank (2019: 67) stated that "*Social media has created more targets for companies to recruit. [Before] social media, you had to have a real-life social network to sell to. You could either go door-to-door or go to your aunts, cousins, best friends, or church. [Now, it's] 'I have all my former high-school classmates who have moved all over the country who I can sell to'*" Additionally, the possibility to sell online with their own back office or online store might increase, also, the sales volume. Internet expanded the business opportunities and if MLM companies and specially distributors, see the online channels as a business tools they might increase their profits and revenues.

The disadvantages to people to start as a distributor in a MLM company are below.

Consumers are becoming more and more informed while the access to prices and specifications information tended to be clearer. Nowadays consumers have a lot of consumption possibilities and can buy the same product in several stores. More, consumers can now (with the technological advance) not only buy their products in the stores in their cities but also online wherever they are to wherever they want, and this commodity is on the biggest challenges that distributors face. MLM companies are known to have high quality products in their bundles, but the competitive advantage (regarding the quality) that these

MLM and the impact on distributor's loyalty

companies used to have, have been challenged. For instance, in Portugal Herbalife is well known nutritional products brand and in the recent years they (the brand and the distributors) have been facing more and more **competition** like Prozis – which became one of the biggest sports nutrition online store in Europe. This is a fierce competition since we can buy similar products in Prozis by a fastest way than Herbalife – consumer can buy Prozis products and depending on the day hour can have it at home on the next business day. People, nowadays are beginning to be used to buy things online, according to INE (*Instituto Nacional de Estatística* – Portuguese Governmental Institute of Statistics) and Eurostat in Portugal 15% of resident population made online purchases in 2010 (40% in EU), while in 2017 34% of resident population made online purchases and 57% in EU made it. There are some reasons that might explain why people tend to buy more and more things online, like for instance, the no need to carry the things; the low prices due to competition; the convenience; it is easier to avoid distractions; etc... Consumers are more informed and demanding and they are willing to search a bit in order to choose the best possible option. Contrariwise to buy Herbalife's products consumer has first to contact an independent distributor and only after products can be shipped to home or delivered by the independent distributor. Additionally, distributors face a stock failure since they do not control the products production. Once the products are sold out, distributors cannot do nothing (depend on the availability). In these situations, the less loyal consumers can switch their willingness to buy to other brands' products diminishing the sales volume of distributors. Distributors suffer competition from not only external brands but also from the other distributors from the company, since they are selling the same set of products or services.

Another weakness of distributors' businesses is the **limited price flexibility**, like in a franchising business, the entrepreneur cannot fix their products and services' prices. Additionally, in a MLM business is impossible to negotiate the prices or make discounts because prices and discounts are fixed by the company. This gives to distributors less power to manage their businesses and a limited price flexibility.

Since a distributor starts his/her MLM business without a fix infrastructure (owned by the distributor) and with low investment, one of the main variables of a successful person in MLM is the personal effort and professionalism. This creates a handicap to people who are

MLM and the impact on distributor's loyalty

beginning their activity in MLM (since they are amateurs and have low experience). As was discussed MLM need training and skills like every other activity and in an initial phase, people don't have the right skills and by consequence the revenue won't be the expected. Additionally, since there is **no infrastructure**, the distributor relies on his/her contacts (warm and cold contacts) to find their customers which are limited and limit the profit and commissions. This limitation, plus the ambition to build an organization with a higher sales volume (and higher commissions) leads to the (need of) recruitment of distributors. The need of recruitment is followed, also, by the lack of skills to sell the products and once this happen, the distributors (specially the amateurs) try to "convince" others to join the business (since they didn't succeed) explaining wrongly the business plan and activity and what is expected in order to recruit (overpassing some ethics). This (common) behavior brings negativity and discredit to MLM industry.

As previously mentioned, joining as a distributor in a MLM company is voluntary. However, closing the activity as a distributor is even more easy than starting. Authors identify the low retention as problem and work around that to solve it and help distributors to retain the distributors in order to generate more sales. Victoria L. Crittenden and William F. Crittenden (2004) worked in the topic and suggest to firms to identify the best sales reps and work with them in order to decrease the retention. The authors mentioned also the fact that **limited retention** and regular high turnover are simply the nature of direct selling and for that reason it as to viewed as one of the characteristics of the business.

Despite the model of MLM be more or less the same throughout the different companies and different sectors, there are specific factors that are not related either to the model or to the distributors – **company related factors**.

- Although several cases have been gained in court by MLM firms, some still face some challenges around their **legal status**. Companies are not completely free from any pressure around their implementation method (MLM) and for that reason and by consequence so the distributors activity. This is possibly the biggest challenge that distributors will have to deal while developing their business within a MLM company and that is why enrolling in a MLM company as a distributor might (temporarily or



MLM and the impact on distributor's loyalty

not) **decrease the social esteem**, depending on how the people explain the products and business opportunity and how they advertise what they have in their hands.

- Additionally, like any other business and activity, MLM companies sometimes have to make some **operational changes** like, launching new products, reducing or increasing the bundle of products or services offered, creating new materials and working processes, closing unsuccessful markets, creating or eliminating reward programs, etc... All these changes will affect somehow the distributor's activity, slow the pace of their network while they try to adapt to the changes and might influence the sales volume and size of their network decreasing it.

### 2.1.3. Consumer's side

MLM is an industry that connect the consumer and the producer with only one intermediary, the distributors. This special link between consumers and firms lead to a different relation between them and by consequence the brand is perceived differently necessarily. Consumers more and more seek different products and a premium service attached to their products and services' purchases. This relation and the relation between the distributor and the consumer have been studied in the last decades.

An investigation done by Stewart Brodie, Gerald Albaum, Der-Fa Robert Chen, Leonardo Garcia, Rowan Kennedy, Pumela Msweli-Mbanga, Elina Oksanen-Ylikosk and Thomas Wotruba in 2004 reported the *“public perceptions and experiences of direct selling as a channel of distribution for goods and services and also as a personal business opportunity in eight different countries. It deals with people who have, and also those who have not, been in contact with direct selling, as a customer, or even as a direct seller.”* The aim of the study is to understand why people buy products and services to direct sellers and what are the perceptions of the consumers regarding MLM firms (presented in the study as direct selling companies). Out of 4263 people, only 4% of the people claimed that do not recognized any company name surrounding the biggest companies in MLM industry worldwide (such as Herbalife, Avon Cosmetics, Tupperware, Mary Kay, among others). When asked (for those who answered that recognized any company of the list) if they bought anything from a direct selling company, 46% said yes, where in South Africa 72% answered yes and only in Finland 25%. Was also held a study of public perceptions with a Likert-scale

MLM and the impact on distributor's loyalty

("1" very poor/low to "5" very good/high) both for customers (those who answered that bought) and non-customers (those who didn't buy any product or service in the past twelve months). Regarding the *Image of Direct Selling*, the average value for customers were 3.4 and for non-customers 2.7; for the *Image of Direct Sellers*, 2.8 for non-customers and 3.4 for customers; *Value for money of products* 2.9 non-customers and 3.4 for customers; *Convenience of Direct Selling* 3.2 for non-customers and 3.9 for customers; *Pressure to buy* 3.2 for customers and 2.9 for non-customers (higher value, less pressure). Additionally, a qualitative study surrounds "*their most recent purchase from a direct seller and asked to select from a selection of seven variables up to THREE main reasons for their purchase.*" The consumers identified *product need to appeal, convenience and value for money* - out of product need to appeal, convenience, value for money, social obligation, service provided, company image and image of direct seller - as the main reasons why they bought. Authors ended their research with an overview of their study "*On a global perspective, from all the observations, 76% (46% of 4,263 plus 59% of 2,165) of the total sample have either bought, or would consider buying in the future, from a direct seller. Thus, it could be argued, a majority of people has a positive perception of direct selling. This is reinforced by the 90% of previous customers who would use this channel of distribution again. The 24% of people with a less positive perception and who are less prepared to buy from a direct seller may well be those who do not like to be disturbed by 'strangers' in their private environment. In particular, those over 65 may be afraid of letting people into their houses. This may explain why, globally, 58% of all respondents have bought from family and friends, rather than a stranger. Comparing this 58% to the percentage relationship of total acquaintances and total population, it may also be argued that direct sellers have a certain resistance to contacting complete strangers and choose easier options of existing relationships.*" This study showed that the common reasons that lead customers to buy products and services in a direct selling environment were "product need and appeal", "convenience" and "value for money".

In order to understand better, the relation that MLM firms and distributors have to final consumer several studies were done. Another relevant one, was the study done by Valentina Makni (2016) that aimed to understand the public perceptions towards network marketing (common name to multi-level marketing). The author held a similar analyse separating the

MLM and the impact on distributor's loyalty

customers and the non-customers (in this case purchasers and non-purchasers). Purchasers evaluate more positively the characteristics of *MLM* “*such as quality, prices, convenience of purchase, testing new products, after-sales service. Additionally, both purchasers and non-purchasers are negative towards most problematic areas of network marketing concerning mainly factor markets: distributors' aggressiveness and pressure at the time of purchase*” (Makni, 2016).

Generally, the opinion and the relation of the final consumer regarding the MLM and direct selling products and services are positive and more positive among those who are already purchasers. Consumers evaluate quality and the rest of consumer experience generally positively. However, the distributors' aggressiveness and pressure are marked as one of the concerning factors.

**MLM, more specifically, more than a successful business model or marketing channel to companies, has a career and compensation plan around it** (paying to distributors for their sales and indirect sales) that use the recommendation and Word-of-Mouth from distributors to expand a specific set of products or services that they (distributors) believe in. Also, this model can be called as Network Marketing because firms are partially or fully implemented by a network that do the marketing and are responsible by the expansion of the firm. Multi-Level channel has the direct selling model in it too, the “Mono-Level Marketing”, where people only earn commissions by selling products or services instead of earning also with the construction of a team and leveraging their sales.

According to Bogdan Gregor and Aron-Axel Wadlewski (2013) there are three commission plans to compensate distributors for their work in MLM system: Uni-Level system, Binary system and Matrix system.

The first one – **Uni-Level system** – is based in a simple register where each person can recommend the business opportunity to anyone and register that person onto its downline. The logic is the repetition of this process helping the downline persons to increase the sales volume through direct selling and registering new distributors (increasing indirectly the sales volume). This repetition and registering process can be compensated in two way: multi-level or uni-level compensation. Uni-level compensates only the direct work what we do we earn. We can't leverage our work by helping the others. Multi-level on the other hand compensates

MLM and the impact on distributor's loyalty

the direct and indirect work (through a previous established compensation plan with rules). In Multi-level Uni-level system we can leverage our earnings by helping our team of independent distributors to sell the products and services and registering new members (in order to leveraging their results too). This type of compensation plan is considered by Bogdan Gregor and Aron-Axel Wadlewski (2013) as *a system which is more just than any other, as it involves an honest mechanism rewarding most productive people*, because Multi-level Uni-level compensation system allows any person to overpass any other in earnings regardless where he/she is in the hierarchic structure.

As in Multi-Level Marketing Systems the effects of work are the main basis for calculating commissions, every participant is motivated to work in a possibly most effective way. However, such approach can often lead to dissatisfaction with results do not proportionate to the amount of contributed effort. In order to avoid such discouragement and protect the company against slower pace of growth of structures, other mechanisms for the construction of the network have been introduced - **Binary system**. It involves horizontal limitation of the Uni-Level system to two positions and at the same time unlimited vertical development of the network. In other words, every participant of the network can have just two persons under him. When the distributor registers the third member, the system enforces him/her to register the new member in the network of one of the two firsts distributors. By enforcing this, the company will motivate the new members increasing the client network creation pace, the sales and consequently the earnings for the distributors. Additionally, like the uni-level system, binary system is built in a way that allow any distributor to earn more than any other independently where he/she is in the hierarchy. In order to make it possible to achieve unlimited income, the binary system should function in combination with another system, which provides such a possibility.

**Matrix system** is the system closest to the concept of a pyramid scheme in programs of Multi-Level Marketing companies. It involves horizontal limitation of the structure to the value adopted by a particular company. The most common value in case of matrix systems is the number three. This means that every partner of the company has three free positions under himself. Deciding to register a greater number of persons supports the first one, just like in case of the binary system. The reason why this system is closest to a pyramid scheme

MLM and the impact on distributor's loyalty

is that commission is paid for every person in the structure. This is the main trait that distinguishes this system from the binary system. Additionally, this leads to an unfair situation in which unproductive persons are rewarded to the same extent as persons who work. Moreover, the system will always be paying higher commissions to persons who have a higher hierarchy. Most Multi-Level Marketing companies combines Matrix systems it with the Uni-Level system, taking into account the dishonest method of calculation of earnings. Such a combination makes it one of the most pro-development systems for the construction of networks, which also keeps fair rules for distribution of commissions.

The multi-level compensations arise to some people some doubts regarding the comparison of these compensation plans and structures to pyramid schemes. This topic will be forward discussed.

As has been studied, in MLM people can join as a distributor/member with a small or sometimes no investment. This might represent a great opportunity or a threat to distributors' activity as was studied right before. **This “easy in, easy out” has a great impact on distributors' activity and distributors' loyalty towards the brand.**

The use of loyalty programs by companies has become a common marketplace phenomenon (Henderson *et al.*, 2011; Uncles *et al.*, 2003), and some empirical studies have demonstrated their positive impact on customer loyalty (Leenheer *et al.*, 2007; Liu, 2007). Since the late 1980s, many firms and researchers alike have claimed that customer loyalty is positively associated with profitability (Jonas Colliander, Magnus Söderlund, Stefan Szugalski, 2016). MLM companies are well known regarding their loyalty programs where they remunerate distributors more than one level (multi-level) of consumers and distributors in their network. Basically, literature has shown that multi-level loyalty programs are one step to increase the loyalty and MLM firms are specialists on that. However, and *despite* that, the biggest question around loyalty is **how the loyalty can be measured?** Several authors worked around that, Punniyamoorthy and Prasanna Mohan Raj in 2007 launch a study around the brand loyalty measurement. In their case they studied the brand loyalty in newspapers and they state: *“It has been suggested that loyalty is a multidimensional construct. The brand loyalty in this study includes multidimensional constructs including both attitudinal*

MLM and the impact on distributor's loyalty

*commitment and behavioural purchase loyalty. We propose that involvement, perceived value, trust, customer satisfaction, commitment and repeat purchase influence loyalty."*

In this case, the distributors' work might be linked to the loyalty towards the brand and might be represented as the quantity of effort in promoting the brand. If the distributor is more active and promotes more actively the brand, he/she has more loyalty towards the brand, if he/she has low activity and low effort in order to promote the brand, he/she has less connection to the brand and that implies less loyalty.

**The world is changing faster than ever and the strategies of doing business among all others are changing.** Great business empires fell and the most valuable companies in the world are now tech companies such as Apple, Google, Microsoft or Amazon. These four companies are now close to value 1 trillion dollars, and some broke that value even though now be below that value. Alphabet (the holding of Google companies) is the fourth most valuable company with 842 billion dollars market value almost the double when compare to Facebook which the fifth with approximately 500-billion-dollar value. If we analyse the business status ten years ago, in 2009, we find a different business scenario. The most valuable companies were Exxon Mobil and PetroChina (Oil companies) while the top-4 companies in value in 2019 were way below of their market capitalization according to ycharts.com. Technological companies lead now the most valuable companies list and the trend is the same, tech companies continuing to grow faster than the others at least in the close future. Another example of the world's transformation is the fact that top-5 earners of "YouTube" collected more than 15 million euros in 2018 (Forbes 2019). This "profession" was impossible 15 years ago since "YouTube" appeared in 2005. Millennials and other generations demand now different things than the previous generations and their behavior and concerns are different from their ancestors. This shows that there are some professional strategies and areas that a few years ago were impossible (even more 20, 30 or 40 years ago) and vice versa. The world is on a continuous changing and for those who don't want to leave behind they have to adapt to this new reality.

This new reality and paradigm demand different approaches. Youth unemployment since the sub-prime crisis reached historical levels always above the general unemployment. Additionally, the delaying of retirement age along with the technological development cut

MLM and the impact on distributor's loyalty

several jobs to youth population. As previously discussed, performance economy and the inverse age pyramid are one (among others) of the major challenges that youth and general population will face regarding their wages, job stability and retirement pensions. According to current trend the available jobs will be less in future while the technologic development gets higher and more prominent. Different industries and jobs will appear and create new and well-paid jobs contrasting with the old ones where the jobs will become obsoletes and will be cut.

In this unstable context MLM industry might be the solution for those who want and are willing to create a small sales network and build a small (and depending on the effort and dedication create a good extra income) extra income that in the first times is a secondary income but with commitment people might build a primary source of income in MLM industry.

## **2.2. Multi-Level Marketing and Pyramid Schemes**

Despite the several companies (some with decades of existence) implemented all over the world, multi-level marketing industry remains a controversial way of implementation. Multi-level marketing theoretically offers the possibility to people start their own small business inside a company. A lot of authors explored the industry and Bogdan Gregor and Aron-Axel Wadlewski (2013) gave us a clear explanation on how the system works: *“The last model that can be used as a basis for a business is Multi-Level Marketing. This model, compared to others, is characterized by very small level of risk or even absence of risk. This results from the lack of need to invest financial assets to implement a concept or buy an expensive franchising license. This is possible thanks to operation based on recommending ready products which in many cases have already gained popularity on the market. Additionally, this model doesn't require costs associated with hiring employees, because work in the company is based on voluntary membership. This means that you can achieve a similar lever effect as in case of typical business activity, but without the need to take the risk associated with hiring employees.”*

Although the function might be quite simple to explore and explain, we cannot say the same regarding the ethical issues and regulatory issues that surround this business model. Additionally, there are some academics that consider Multi-Level Marketing undoubtedly a

MLM and the impact on distributor's loyalty

legal and clear business model, while there are other that consider a MLM companies pyramid schemes. Pyramid schemes according to Wikipedia is illegal in several regions and countries of the planet such as North America, Western Europe, Australia and New Zealand, Brazil, Russia, China, India, Japan, South Africa, among others. More specifically, FBI states pyramid schemes as *“also referred to as “franchise fraud” or “chain referral schemes”— are marketing and investment frauds in which an individual is offered a distributorship or franchise to market a particular product. The real profit is earned, not by the sale of the product, but by the sale of new distributorships. Emphasis on selling franchises rather than the product eventually leads to a point where the supply of potential investors is exhausted and the pyramid collapses.”* In comparison another US federal agency, Federal Trade Commission states Multi-Level Marketing as *“In multilevel or network marketing, individuals sell products to the public — often by word of mouth and direct sales. Typically, distributors earn commissions, not only for their own sales, but also for sales made by the people they recruit. Not all multilevel marketing plans are legitimate. If the money you make is based on your sales to the public, it may be a legitimate multilevel marketing plan. If the money you make is based on the number of people you recruit and your sales to them, it’s probably not. It could be a pyramid scheme. Pyramid schemes are illegal, and the vast majority of participants lose money.”*

There are some clear explanations that offer to public the needed information to be sure about what is a pyramid scheme. The characteristics are: people have to pay necessarily to pay to enter in the business and that membership is high, the recruitment is highly stimulated (recruitment centred business), people who entered first in the business earn, necessarily, more money, those people who enter on the bottom of the pyramid work for those who enter first, the products and services sold have no real value in the market or their price are out of the market and traditionally there are no offices or physical spaces to give support to network. These are the characteristics that commonly are pointed as those who are red flags in supposedly MLM companies (Ciongradi, 2017).

Also, one thing that usually is pointed as the responsible of MLM company to be a pyramid scheme or at least an unethical business are the **inventory loading** and/or **internal consumption** (inventory loading is commonly mistaken with internal consumption). A



MLM and the impact on distributor's loyalty

company can have a product centred business however, but those products can be being sold only (or mainly) to distributors. The distributor like any other consumer can buy the products and by doing that the salesperson usually gets a discount around the product price. However, *“direct sellers cannot be compensated merely for recruiting salespeople or for inventory loading by their sales force recruits. To do so makes the multilevel marketing compensation plan an illegal pyramid”* (R&R Law Group PLLC, 2015). If it might be illegal or at least not so intelligent (buying “industrial” quantities of products or services), why does a salesperson would buy a high volume of products or services? Distributors might do that in order to qualify for a volume quantity and receive commissions. Victoria L. Crittenden and Gerald Albaum (2015: 423) stated that *“inventory loading occurs when members of the sales force purchase large quantities of their company's products - at a discounted price - so as to qualify for a sales volume goal rather than to strictly meet the needs of the customer.”* Internal consumption however is a common behavior not only in direct selling industry *“that consumption by employees at a discounted rate, regardless of the marketplace context, is as American as apple pie and that internal consumption occurs in all areas of business – not just direct selling. For example, an administrative assistant is noted as saying that the reason she switched employers, accepting a lower per-hour wage at a local university, was for the tuition benefit for her children”* (Crittenden & Albaum, 2015). It is clear that internal consumption is not, and it can be pointed as a characteristic of pyramid scheme because it is normal a person uses or consume a company's product or service that he/she works for. However, buying high quantities and have an inventory loading and this practice be transversal to all organization and commissions received by distributors be held in that inventory loading this might not correspond immediately to an unsustainable company (based on recruitment and with no product associated), but at least it represents an unethical way of earning money and this has be to seen as red flag when a distributor is thinking to start his/her activity in a MLM company.

In spite of existing some different characteristics, MLM and pyramid schemes have a small border line between them. People get confused around the two concepts and MLM companies have their image burned and damaged because of that since a pyramid scheme has its activity not tracked until got damaged hundreds or thousands of people and cheated thousands or millions of euros or dollars.

MLM and the impact on distributor's loyalty

Additionally, an important figure to keep in mind is that a lot of institutions around the world has a pyramid hierarchy structure. Holy church – the Vatican – has a pyramid structure (the Pope, the cardinals, bishops and archbishops, priest, etc...), the typical firm has (CEO, the board, top managers, middle managers, bottom workers) or a political party (general secretary, secretary council, general workers, militants).

### **3. Marketing: a special issue**

Since the last centuries world became more and more global, and especially in the 20<sup>th</sup> and the 21<sup>st</sup> centuries the economic activities have now a global competition. This competition allowed to have all commodities all over the world with affordable prices and by consequence opened a new era of exigency regarding management and the brand exposure. Multinational brands fight now, not only to have the best product in the market but also to show and prove that their products are better than the competition.

While television gain his position as the number one communication channel, TV was also the number one way to the brands to reach masses. Although television is still one of the main marketing channels (followed by radio, print press, etc...) with the explosion of new media, particularly in 21<sup>st</sup> century, consumers are dramatically changing their media usage patterns and how the use the different media sources to get the information that they were looking for and how they, by consequence, choose brands. Nowadays, marketing departments face a huge challenge because the consumer “path to purchase” is shorter, less hierarchical and more complex (Court *et al.* 2009). Now consumers do not necessarily passively receive brand information strictly through legacy, mass media such as print or TV and store it in memory for later use (Rajeev Batra & Kevin Lane Keller, 2016). Instead they seek it when needed through new communication ways like search engines, mobile browsers, blogs and brand websites.

Brands have now a continuous exposure and they have to have a multi-channel communication. In the past marketing was way more firm-to-consumer than it is today. Consumers used to have contact through an ad (on TV, radio, outdoor, magazines, etc...) but now the relationship is more consumer-to-firm in consequence of the expansion of internet, where the brands have a continuous contact with their customers. In contrast to the past (where marketers could only broadcast TV, radio, outdoors, printed ads on newspapers and

MLM and the impact on distributor's loyalty

magazines, general public relations for third-party credibility, mailed newsletters and catalogues), marketers have much more tools to create awareness and proximity with consumers, *"Today, in contrast, marketers are blessed with a much richer array of communications possibilities. In addition to those traditional means, a brand can reach (and send reminders to) a large number of consumers through mass or targeted Facebook ads, banner or display ads on thousands of websites, or paid and organic search ads. It can use its own website, third-party websites, and bloggers to provide persuasive content to create brand preference; offer short-term promotions through tweets and targeted e-coupons; and create online brand communities through its own and social media-type web properties. Second-by-second media-usage data allow for micro and dynamic segmentation and targeting; media and message changes can be made much more quickly"* (Batra & Keller, 2016). In addition to traditional tools a brand can expose itself through social media ads and pages like Facebook and Instagram, its website and third-party ones, blogs, e-coupons, among other possibilities.

With the globalization and internet, brands are using a multi-channel marketing and each step or message depends on the previous message and affects those who will come, and this is an extreme headache to marketers. They must be concerned not only with the effects of each message individually (main effect) but also need to understand the context and environment of the message (interactive effects). As Rajeev Batra and Kevin Lane Keller collected from Joo, (2013) and Mayzlin and Shin (2011), *"recent academic research has confirmed the existence of interactions and cross-effects across new and old media options such as search, display, mobile, TV, social media, offline WOM, and so on."* That means that marketing and communication are a constant message tool and each message have interactive effects with the previous and posterior messages and cross effects with each platform or tool used.

New marketing tools created a continuous link between costumers and brands and expanded their awareness. However, it can also expose a negative behavior of company regarding its business and social influence and responsibility. Which means that marketers while saw their tools increasing, also saw their social responsibility increasing too because of the global multi-platform impact of their work. This continuous exposure of brands increased social influences on purchase and by consequence word of mouth and advocacy have become

MLM and the impact on distributor's loyalty

especially important and for that reason cross effects among marketing channels and interactive effects among the messages represent one of the biggest challenges to marketers in this 21<sup>st</sup> century global economy.

### 3.1. WOM

The global and digital era arrived and come to stay, and marketers are adapting to this new reality. New ways of marketing arrive and arise, and marketers are continuously grabbing this environment to improve their work. The world is faster than ever and take the attention of consumers is becoming more and more difficult and for that reason brands are trying to increase their awareness and the consumer intentions to purchase through Word-of-Mouth (WOM).

Any company can hold three types of media: paid media, earned media or free media and own media. Kotler and Keller (2012: 569) stated: *“Although different points of view prevail, paid media results from press coverage of company-generated advertising, publicity, or other promotional efforts. Earned media—sometimes called free media—is all the PR benefits a firm receives without having directly paid for anything—all the news stories, blogs, social network conversations that deal with a brand.”* WOM is considered earned media but it isn't literally free—the company has to invest in products, services, and their marketing to get people to pay attention and write and talk about them and their products (Kotler & Keller, 2012). WOM and its awareness can be used in an everyday conversation or into an institutional talk. Besides these two types of use companies can rely on: social media, where we find groups and online communities regarding specific activities or interests; social networks, which have become more important in both contexts B2B and B2C; and blogs, which regularly provide updated information regarding a specific theme, reaching and influencing a vast audience (Kotler & Keller, 2012).

As WOM recommendation is intuitively the best that we consumers can have to understand better a specific product or service, it tends to be more reliable and trustworthy than messages from more formal marketing (Solomon, 2015). The same author added that WOM influences two-thirds of all consumer goods sales. Katz and Lazarsfeld (1995) found positive word of mouth seven times more effective than newspaper and magazine advertising, four times more effective than personal selling and twice as effective as radio advertising in influencing

MLM and the impact on distributor's loyalty

consumers to switch brands. As it depends way more on the human perception when comparing to the other marketing tools, WOM has a powerful communication behind, has a social component and the sharing of ideas, beliefs and experiences regarding the personal life, perception of each human being, often share truthful idea, and also generate more WOM.

This tool been proved as especially important for service providers whose offerings are largely intangible and experience or credence based on (Taghizadeh, Taghipourian & Khazaei, 2013). One aspect that WOM can be distinguished from more traditional marketing aspects is the positive feedback mechanism between WOM and product sales. That is, WOM leads to more product sales, which in turn generate more WOM and then more product sales (Mohammad Reza Jalilvanda, Sharif Shekarchizadeh Esfahania & Neda Samiei, 2010).

Nowadays the social perception of the brands regarding their continuous marketing is extremely important because consumers through digital WOM or offline WOM can crush or lift a brand regarding their actions, social responsibility, human rights, ads and everything that the brand show and expose to public. So, this personal communication can generate good or bad marketing depending on how the consumers receive the messages that brands launched and how they spread it.

In the recent decades, internet came and became part of our lives. Everything is now different than before and marketing and by consequence the WOM, either. **Summing the power of traditional WOM, internet created eWOM (Electronic Word-of-Mouth)**, and this marketing tool saw its reputation and effectiveness became even higher. Mohammad Reza Jalilvanda, Sharif Shekarchizadeh Esfahania and Neda Samiei (2010: 43) stated eWOM as *“any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions via the Internet”*

As we have seen, despite of being a simple concept, it is a powerful tool and has more developed meanings. As it has been discussed, WOM is not easy-manage tool so companies are more and more relying on a digital word-of-mouth, which aims to better monitor such instrument. That digital approach is also called Buzz Marketing (Palmatier & Sridhar, 2017).

MLM and the impact on distributor's loyalty

Companies work with opinion makers and leaders who work as 'brand ambassadors' and spread the word about company's products. As more independent seems the ambassador and apparently not linked to the brand, better it works. Although this type of WOM can create excitement, publicity and awareness in the public, buzz marketing is risky as long as is considered as a form of cultural corruption, it requires a buzz-worthy product; and it only works in high-interest product categories (Keller, 2013).

The second type is the Viral Marketing, which tries to encourage consumers to pass company-developed products and services or audio, video or written information to other online. Both types try to impact the marketplace, promoting a brand or its noteworthy features. Nevertheless, the success of viral or buzz campaigns depends on the willingness of consumers to talk to other customers, even if companies can help to create buzz by media or advertising (Kotler & Keller, 2012).

The last type of WOM is the Guerrilla Marketing, which is based on promotional strategies that use unconventional means and venues to encourage WOM about products. The message pops up in a place the customer was not expecting to see in an advertisement, for example (Solomon, 2015).

As discussed before, internet opened and changed the way how the marketing was created by companies and the way how the consumers respond to the marketing, creating an open vehicle of information and opinions both from Business-to-Business and Consumer-to-Consumer (Mohammad Reza Jalilvanda, Sharif Shekarchizadeh Esfahania & Neda Samiei, 2010).

World is becoming more and more digital and consumers are demanding more trustworthy sources of opinions and feedback regarding products and services they want. WOM and eWOM are raising their importance in marketing and recommendation and marketers have to adapt to this reality. Consumers seek for information before the purchase and search it with family, friends and feedbacks from other consumers who were in their condition but bought the product or service before. Companies should more and more, actively get involved in some online consumer communities and provide all the relevant and complete information about the companies. Getting the most relevant and comprehensive information to customers will result in higher information adoption. With this open access and higher information their

MLM and the impact on distributor's loyalty

willingness to buy will be higher and even higher if there is a positive WOM or eWOM supporting their decision.

As we seen in the previously, Word-of-Mouth has an important role in our lives and in marketers' work. WOM recommendation was mention by scholars as the best that we consumers can have to understand a specific product or service and it tends to be more reliable and trustworthy than messages from more formal marketing (Solomon, 2015). Nowadays, WOM is becoming more and more important because of the continuous effort of every communication ways to grab our attention. This 'over pollutes' our environment and attention and the way we rely on WOM grows in an opposite way of that 'over pollution'. Marketers are facing different challenges and have to deal with this pollution and WOM and eWOM can be a great tool to face them.

Talking about **Multi-Level Marketing and don't talk about recommendation and WOM is like talking about football and don't talk about players**. Basically, MLM channels rely on recommendation and WOM to sell the products. Consumers hear about the products and services through distributors that by selling some them (products and services) earn a commission as Kotler and Keller stated in their Marketing Manager book (page 449) "*A salesperson goes to the home of a host who has invited friends; the salesperson demonstrates the products and takes orders.*" WOM of has this important role because otherwise (in most brands that use MLM channel) consumer wouldn't hear about the company and products and their usage. At the same time, consumers can become distributors through WOM by knowing the advantages and disadvantages of being a distributor and selling the products and services. Whole MLM businesses rely on WOM, nothing happens without WOM and recommendation. WOM and its combination with MLM channel increases the consumer knowledge about the features of that specific (set of) product(s) or service(s), as long as this knowledge relies on a demonstration and explanation of the product.

More, among several characteristics that MLM might have, there are three that are extremely important to the industry.

- Consumers are more prone to buy or experiment a product or service if we were recommended by a friend or family member (trustworthy people to us) rather if we see an ad through any other marketing channel, they rely more in WOM. "*The results*

MLM and the impact on distributor's loyalty

*shows that word of mouth from family, friends, peers and relatives has greater impact on the buying decision than other sources such as the company staff and salesmen” (Zamil, 2011).*

- Second, as some product and services can be more complex to use and might have some new features (might) not seen in the market, they might need to be demonstrated and explained like M. Rezvani, S. Ghahramani and R. Haddadi (2017: 35) stated on their research “*Also hold that in network marketing, people provide their friends and acquaintances with information concerning products or services by verbally supporting them and recommend that they use the products.*”.
- Third, is totally efficient to company because it only pays if the sale occurs and never before – this characteristic is intrinsically linked to the growing economy of performance and competition between companies in this new century.

MLM industry covers thousands of companies some of them quite known, however some of them, like every firms in all sectors, are not good companies to deposit trust and work with them. These companies, which can be identified or not (by observing some characteristics, previously discussed), burn the image of whole industry and companies.

### **3.2. Brand equity and brand communication**

World became more challenging and more competitive and brands must create presence and must be omnipresent as possible to the consumer. The ultimate objective to a company is to build a brand equity as big as possible. Different approaches can be done in order to construct that. One of the most common way to structure and build the brand equity is through the “Customer Based Brand Equity” model of Keller.

Keller's model tries to identify several aspects around the relation between the customer and the brand. There are four levels in the model. The first level is the **brand identity** or “Who are you?” level. Basically, explore the way that customers look up to the brand and how they distinguish them. It is how the brand introduces itself to consumers and how it is seen on the eyes of consumer. More this first level (the base of the brand equity pyramid) is strong, stronger the brand equity will be. Ensuring that the communication hits the target customers and share the company's values will increase the brand identity and awareness.



MLM and the impact on distributor's loyalty

Level two of the pyramid is the **brand meaning** or “What are you?”. Once a customer is aware of a brand, he/she wants to know what the brand does and more about the brand. There are two main factors that define the brand meaning: brand performance and brand imagery. Brand performance is measured by the features, reliability, price, style and design and customer service around the company's products and services. Brand imagery is basically how the consumer see the brand if he/she consider it as human.

Pyramid's level three is the **brand response** or “What are the feelings for the brand?”. Positive and negative experiences generate feeling around brands. If a consumer gets a more positive experience around a product or service that bought from a specific brand, this will originate positive feelings about the brand in the consumer. The inverse happens too. Positive experiences are called feeling and negative experiences are called judgements. Balancing the positive and negative experiences are extremely important to the brands since they have to have more feeling than judgements in order to have a more positive view form the consumer's perspective.

The fourth level of the pyramid is the **brand resonance**. This is a level where there is a huge social and psychological connect of the brand with the customer. This link is almost unbreakable, and it is commonly associated to a specific status around a specific niche market. For consumers, finding someone who use or bought that specific brand automatically will generate a huge connection, for instance, those customers who drive a *Harley Davidson* will automatically feel connected because brand transmits a special mood for those who use that motorcycle.

Depending on the stage of the pyramid the brand is it will have more or less profound ties with consumers. Keller's brand equity model can give also answer to brands on what it might be done in order to the brand goes to a higher level on the pyramid.

MLM brands just like the other have to communicate with their customers and their communication, in spite of being done mainly by distributors. Basically, in MLM distributors do almost all the communication but brands might potentiate that communication with advertising and a clear communication strategy in order to grow in market share.

## MLM and the impact on distributor's loyalty

MLM companies, like some others, try to build up their brand equity by focusing their business in few and specific niche markets. Amway, for instance, have specific brands depending on the niche market. Herbalife focused their business in nutritional supplements, sports nutrition and energy drinks. Avon works mainly with cosmetics. These other companies try to develop their brands in specific markets in order to be automatically associated with a top-quality product or service around their category.

Apart from promoting and being implemented by distributors all over the world, what are the strategies and actions that MLM companies apply to grow, gain market share and empower the distributors' work?

- Herbalife, for instance, use local ambassadors to promote their brand. Additionally, they use sports ambassadors (like Cristiano Ronaldo) to increase their awareness in sports world and associate their brand with sports' performance (since Cristiano Ronaldo is known for be a top performer in football). The slogan "Fuels Champions" remit the consumer to associate Herbalife's products to Cristiano Ronaldo's success and if the consumer wants to be super succeeded his/her wellness and sports activity he/she has to consume Herbalife's products. Herbalife look also the support of nutritionists and doctors to approve their products and to testify that their products are perfectly designed for physical activity and to those who seek an equilibrated diet. Sometimes the company associates also with some sport events, like small marathons and other sports events.

This effort might be seen as Herbalife trying to position the brand closely to the nutritional supplements' consumers and to wide their knowledge and awareness about the brand since it is almost only heard through the distributors. These advertisings are undoubtedly important to the company create a powerful brand equity and to increase the distributors' sales.

- Or, Avon which commonly have been appearing in the magazines, especially on those who's the target is the feminine public. The brands appeared almost always represented with a mannequin, sometimes a well-known one. Clearly the position of Avon through the decades since XIX century is to be associate to the women's beauty and to the convenience to buy the products to friends and family with all the comfort

MLM and the impact on distributor's loyalty

and whenever the consumer wants. Avon also have commercials on TV where the brand is promoted to create awareness. Just like Herbalife, Avon uses ambassadors to increase the link between the brand and the consumer.

Brand equity is promoted and increased by the feminine image that the consumer wants to have and that the brand wants (and tries) to transmit. Avon uses ambassadors, advertisements in TV, magazines, internet and potentially in other platforms in order to increase their awareness and to scale up and build up the brand's equity and increases the distributor's sales.

### **3.3. Personality as a Brand**

Another important dimension of MLM is the 'personality as a brand'. This reveals itself as a highly important characteristic for those who want to be successful in a MLM business. Whatever the sector, the product or the way, the selling of something is often influenced by the characteristics of those who are selling.

One of the characteristics of a successful networker is a customer orientation behavior. This posture represents and is known as a critical factor in the formation and maintenance of customer satisfaction with a firm's customers. Basically, this orientation reflects the practice of the marketing concepts by an individual salesperson. The importance and the link of this posture and the salesperson's performance has been supported by several studies (J. Garry Smith, 2017). Today the role of a salesperson has become even more critical (Abeysekera & Wickramasinghe, 2013); it has evolved from implementing the selling function to become a core value creator for customers and sales organisations (Zhang & Glynn, 2015). This increase in importance of the salesperson, did grow the focus on the characteristics of a well successful salesperson.

One of the most cited works regarding the salesperson's performance is the "*The determinants of salespersons performance: a meta-analysis*" of Churchill in 1985. In that research Churchill found six components that are responsible for producing higher sales performance such as, aptitude, skill level, personality, motivation, biographical information and maintaining satisfaction. Further investigations found that the six components found by Churchill in 1985 were still relevant in 2011 (Verbeke, 2011). Additionally, there are five factors that influence the salesperson's performance. These factors were collected by Halimin

MLM and the impact on distributor's loyalty

Herjanto and Drew Franklin in 2017 and are personal factors, organizational factors, co-worker factors, buyer factors and situational factors.

These studies and investigation shown that the salesperson's performance is strongly related to factors that are controlled by the salesperson such as, skill level, motivation or biographical information (Churchill, 1985). This comes to prove that to be a well succeed salesperson (a distributor in MLM) we must develop some abilities surrounding the personal factors.

The function of distributors in MLM industry is different than the MLM firms and that implies necessarily different roles and advantages and disadvantages.

#### **4. Conceptual Model**

##### **4.1. Research Questions and framework**

As it was studied above in the literature review, MLM despite a controversial business model it is present all over the world in almost all countries. Among the scholars there are those who point as a clear business model where the people who want to join and create a small business 'inside' a company can do it. However, there are others that point MLM business model as an unethical model where people lose their money and are exploit to a major cause – the profit to the founders and to those which are on top of the 'pyramid'. Also, they point MLM as equal to pyramid schemes and MLM companies should be illegal and be impeded to operate. This study will focus on how the MLM companies could improve their activities and their transparency in order to avoid any ethical or legal appointment.

Nowadays, hundreds of thousands are enlisted in MLM companies as a consumer or distributors, according to WFDSA there are more than 116 million distributors worldwide (116.737.059 more precisely). In its 'Global Direct Selling - 2017 Retail Sales' report WFDSA mentioned these 116 million distributors as "*Independent Representatives include individuals who are career minded entrepreneurs building their own businesses ... or part-time entrepreneurs earning extra income. Most enjoy significant discounts on products. In fact, some choose only to enjoy and use the products and not to sell at all.*" These numbers show that the industry moves masses and it is impossible to ignore it. In fact, this topic has been more and more profoundly studied and demystified, however, the distrust and blaming over MLM business model and MLM companies continue regarding the efforts of MLM companies and distributors to prove otherwise. More, distributors in MLM face in numerous

## MLM and the impact on distributor's loyalty

challenges in their activities (not only the legal status of the companies that they are working for and with or the legal status of the whole industry – MLM) and certainly ones more determinant for their success than others.

Once the people choose to become MLM distributor, he/she will face advantages and disadvantages. These disadvantages will impact the distributors' work. The following study is done in order to understand that negative impact in their activity and how negatively that factors influence the distributors loyalty. Reviewing the literature, were identified several factors that are pointed as a disadvantage of distributors' activity in MLM. Additionally, were pointed several loyalty constructs that help us to understand how to measure the loyalty in a brand. Punniyamorthy and Prasanna Mohan Raj (2007) launch a study around the brand loyalty measurement and tested and concluded that **involvement, perceived value, trust, customer satisfaction, commitment and repeat purchase** were the (simplified) constructs that influence the brand loyalty. The study was conducted in the newspaper sector and the variables that were tested were accepted and had significance in the model.

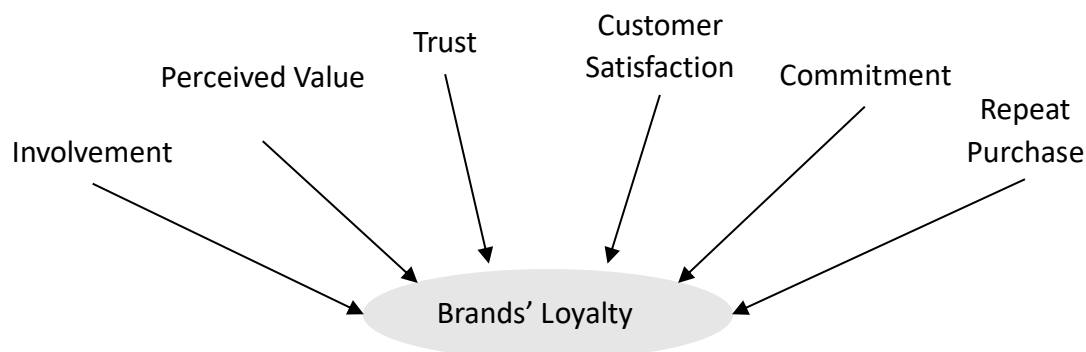


Fig. 3 – Simplified Punniyamorthy and Prasanna Mohan Raj's model of loyalty

Taking in consideration Punniyamorthy and Prasanna Mohan Raj work (2007), the variables suggested and adapted to MLM and distributors' activity and reality were **involvement** (involvement and commitment), **perceived value of effort** (perceived value), **trust** (trust), **customer satisfaction** (customer satisfaction) and **time and money investment** (repeat purchase and commitment).

The study that will be further conducted is in order to understand how the unsucces factors (disadvantages of MLM distributors' activity) lead and influence the distributors' loyalty

MLM and the impact on distributor's loyalty

constructs (involvement, perceived value of effort, trust, customer satisfaction and time and money investment);

- **How these suggested constructs influence the distributors' loyalty towards the brand?**
- **What is the impact of those unsucccess factors (competition, limited price flexibility, no owned infrastructure, limited retention and company related factors) in those constructs?**
- **How the loyalty is influenced by these loyalty constructs and “unsucccess model factors”?**

This will provide fundamental information in order to identify the most important unsucccess factors and how they affect the loyalty.

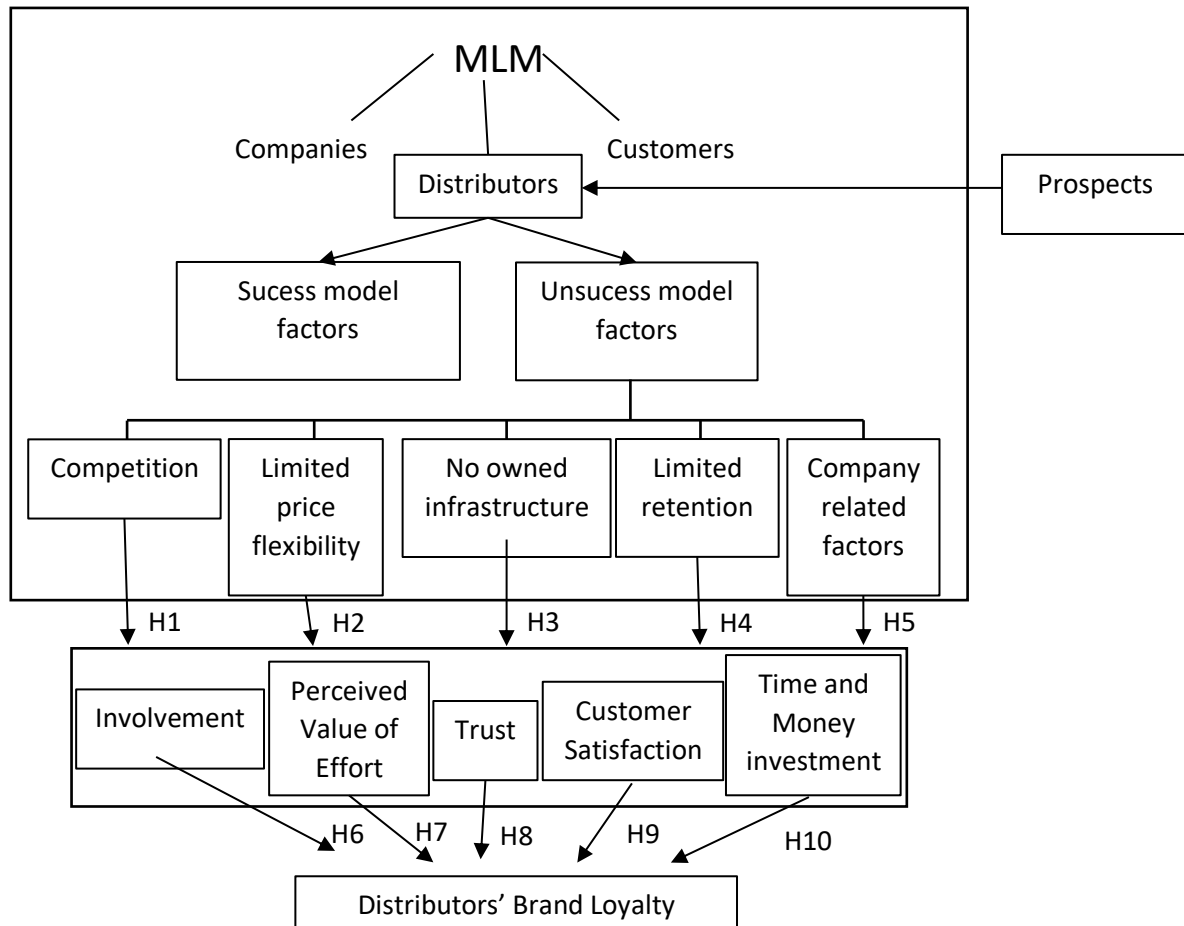
In the end the aim is to present clear solutions to the main challenges faced by distributors in order to improve their loyalty which can be assumed as their commitment with their activity.

#### **4.2. Hypothesis Development and Conceptual Framework**

As has been studied, MLM is a business model which allows companies and distributors to grow and earn money. As has been mentioned, MLM is a three-part model where Companies, Distributors and Consumers interact. By reviewing the literature there were found the ‘unsucccess model factors’ that were perceived as, having a negative influence towards the distributors activity. After, taking into consideration the Punniyamoorthy and Prasanna Mohan Raj's work (2007), there were found the loyalty constructs that somehow influence the loyalty.

As has been stated, the following study has the objective to understand if these factors have impact on the distributors' daily activity and which ones are more important to deal with and face. Distributors' activity depends on the engagement and effort they have in their activity and that effort will produce results. This engagement will be higher as the loyalty is higher. Conceptual framework by consequence results of the construction between the MLM model and the unsucccess model factors found in the literature and the second part which is an adaptation of Punniyamoorthy and Prasanna Mohan Raj's work (2007). In order to understand better, the study that will be held a conceptual framework is presented below.

## MLM and the impact on distributor's loyalty



Source: Author's elaboration adapted from Punniyamoorthy and Prasanna Mohan Raj (2007); Claudia Groß & Dirk Vriens (2017)

The hypotheses in study on this analysis are:

### **H1: Competition has a negative impact on distributors' loyalty constructs;**

- H1a: Competition has a negative impact on Involvement;
- H1b: Competition has a negative impact on Perceived value of effort;
- H1c: Competition has a negative impact on Trust;
- H1d: Competition has a negative impact on Customer Satisfaction;
- H1e: Competition has a negative impact on Time and money investment;

In the literature review and MLM's model reviewing was found that competition might have a negative impact over the distributors' activity and consequently over distributors' loyalty and (by consequence) loyalty constructs. The following study will try to understand how the competition influence the loyalty constructs.

**H2: Limited price flexibility has a negative impact on distributors' loyalty constructs;**

- H2a: Limited price flexibility has a negative impact on Involvement;
- H2b: Limited price flexibility has a negative impact on Perceived value of effort;
- H2c: Limited price flexibility has a negative impact on Trust;
- H2d: Limited price flexibility has a negative impact on Customer Satisfaction;
- H2e: Limited price flexibility has a negative impact on Time and money investment;

In the literature review and MLM's model reviewing was found that limited price flexibility might have a negative impact over the distributors' activity and consequently over distributors' loyalty and (by consequence) loyalty constructs. The following study will try to understand how the limited price flexibility influence the loyalty constructs.

**H3: No owned infrastructure has a negative impact on distributors' loyalty constructs;**

- H3a: No owned infrastructure has a negative impact on Involvement;
- H3b: No owned infrastructure has a negative impact on Perceived value of effort;
- H3c: No owned infrastructure has a negative impact on Trust;
- H3d: No owned infrastructure has a negative impact on Customer Satisfaction;
- H3e: No owned infrastructure has a negative impact on Time and money investment;

In the literature review and MLM's model reviewing was found that having no owned infrastructure might have a negative impact over the distributors' activity and consequently over distributors' loyalty and (by consequence) loyalty constructs. The following study will try to understand how having no owned infrastructure influence the loyalty constructs.

**H4: Limited retention has a negative impact on distributors' loyalty constructs;**

- H4a: Limited retention has a negative impact on Involvement;
- H4b: Limited retention has a negative impact on Perceived value of effort;
- H4c: Limited retention has a negative impact on Trust;
- H4d: Limited retention has a negative impact on Customer Satisfaction;
- H4e: Limited retention has a negative impact on Time and money investment;

In the literature review and MLM's model reviewing was found that limited retention might have a negative impact over the distributors' activity and consequently over distributors'



MLM and the impact on distributor's loyalty

loyalty and (by consequence) loyalty constructs. The following study will try to understand how limited retention influence the loyalty constructs.

**H5: Company related factors have a negative impact on distributors' loyalty constructs;**

- H5a: Company related factors has a negative impact on Involvement;
- H5b: Company related factors has a negative impact on Perceived value of effort;
- H5c: Company related factors has a negative impact on Trust;
- H5d: Company related factors has a negative impact on Customer Satisfaction;
- H5e: Company related factors has a negative impact on Time and money investment;

In the literature review and MLM's model reviewing was found that company related factors might have a negative impact over the distributors' activity and consequently over distributors' loyalty and (by consequence) loyalty constructs. The following study will try to understand how company related factors influence the loyalty constructs.

All the previous hypotheses are somehow related to the next ones. Depending on the impact, the following hypotheses (once confirmed), will be impacted in a higher/lower and/or positive/negative way.

Considering the Punniyamoorthy and Prasanna Mohan Raj's work (2007) and the positive impact that the loyalty constructs have over the loyalty, the following hypotheses (H6, H7, H8, H9 and H10) state the potential relation between the MLM adapted loyalty constructs and the loyalty.

**H6: Involvement has a positive impact on distributors' brand loyalty;**

**H7: Perceived value of effort has a positive impact on distributors' brand loyalty;**

**H8: Trust has a positive impact on distributors' brand loyalty;**

**H9: Customer satisfaction has a positive impact on distributors' brand loyalty;**

**H10: Time and money investment has a positive impact on distributors' brand loyalty;**

## **5. Methodological Approach**

### **5.1. Sample**

In order to better understand the links between the several variables and concepts (and after testing the proposed hypothesis) of the framework a study was done. The aim is to understand how the distributors' brand loyalty is affected by the unsuccessful model factors the population inquired were only distributors (active or non-active). Through a questionnaire, several questions were conducted to distributors (active or non-active) – mandatory factor - to have a clear view between the concepts and variables in study to clarify the hypothesis in study. Some questions were additionally made to get more data regarding the population in order to work and order the data from different perspectives. Every question in the questionnaire were made with all the neutrality to give to those who are answering the possibility to choose the better answer regarding their perspective. The questions around the topic had two mandatory answer different parts. In the first part the main objective is to understand the impact and the relation between the distributors' brand loyalty factors and their loyalty towards the brand, either their impact as their importance. The second part of the questionnaire is to better understand the relation between the unsuccessful model factors (competition, limited price flexibility, no owned infrastructure, limited retention and company related factors) and the distributors' brand loyalty factors.

Concerning to initial part as has been stated, the main objective is to have a diverse set of variables that characterize the population to work afterwards with the results.

### **5.2. Scales and Measurements**

The first (topic) part relies on questions regarding the relationship between distributors' loyalty factors and their effective loyalty. One question was conducted. The question was made to measure the importance of the distributors' loyalty factors on the distributors' loyalty. The measurement is possibly due to a Likert scale. In this situation the scale has 5 points. The use of Likert scale follows the original idea of the scale that *“involved the creation of a measurement scale referring to the measurement of opinions, attitudes and views of the respondents connected to the question posed in a questionnaire (Likert, 1932). In the proposed approach the scale has a central value indicating a neutral attitude towards a*

MLM and the impact on distributor's loyalty

*particular notion or phenomenon and accordingly the values corresponding to the attitudes of negation and acceptance of various intensity” (Forys & Gaca, 2017).*

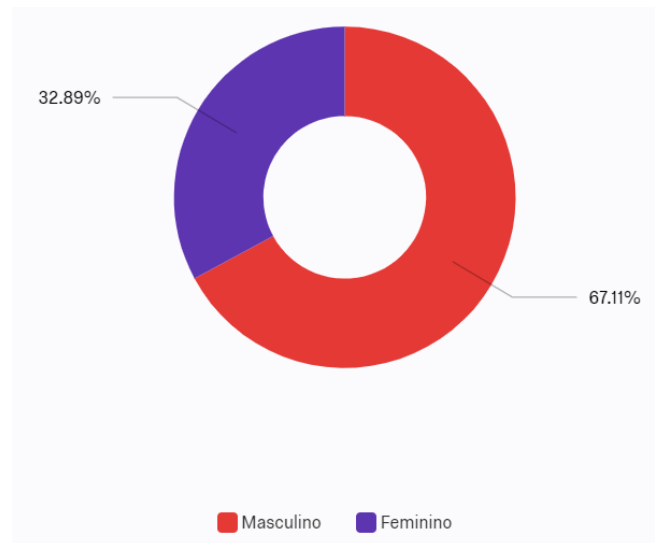
The second topic, the main aim is to understand the relationship between the unsuccessful model factors and the distributors' loyalty factors. The measurement is again a 7-points Likert scale with a neutral point. The questionnaire has a question to understand each relationship. In the end to complete the analysis it was asked to order which unsuccessful factor has more influence in the distributors' loyalty towards the company.

Afterward with the results a study done in Qualtrics was held in order to better understand the relationships between the variables and the significance for the current study.

## 6. Data Analysis

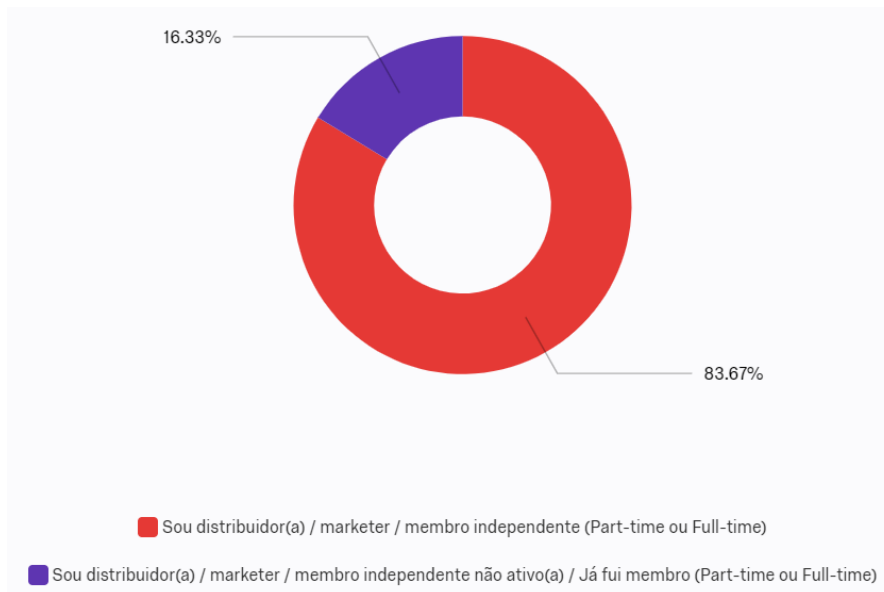
### 6.1. Sample characterization

The questionnaire had 179 registered answers 149 of those valid and finished. The questionnaire was made in Portuguese in order to have a higher rate of responses. Considering those 149 answers, 67,11% (100) were male and 32,89% (49) were female.

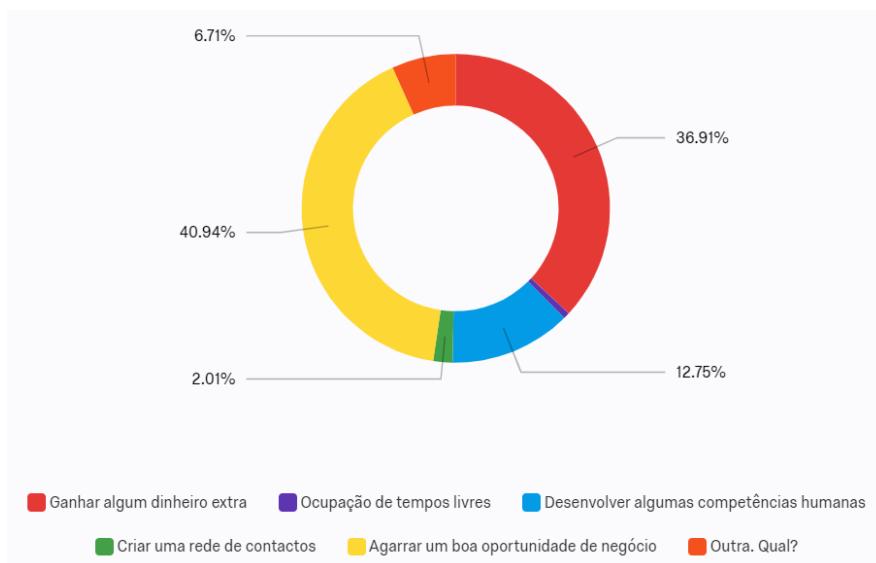


The questionnaire had as a target group active or non-active multi-level marketing members automatically excluding others when they chose any other options concerning their relation to MLM. 83,67% (125) claimed to be an active member of MLM and 16,33% (24) affirmed that were non-active members.

## MLM and the impact on distributor's loyalty



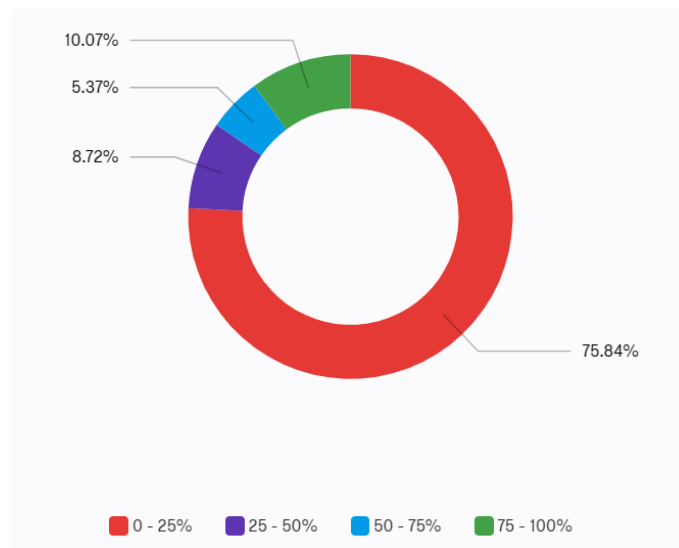
When was asked to point the main reason to have started their activity in MLM 61 (40,94%) claimed to be to develop a good business opportunity and 36,91% (55) claimed to earn an extra money while the other four options took the rest of the percentage (developing human competences 12,75%, “other” 6,71%, create a contact network 2,01% and to occupy the free time 0,67%).



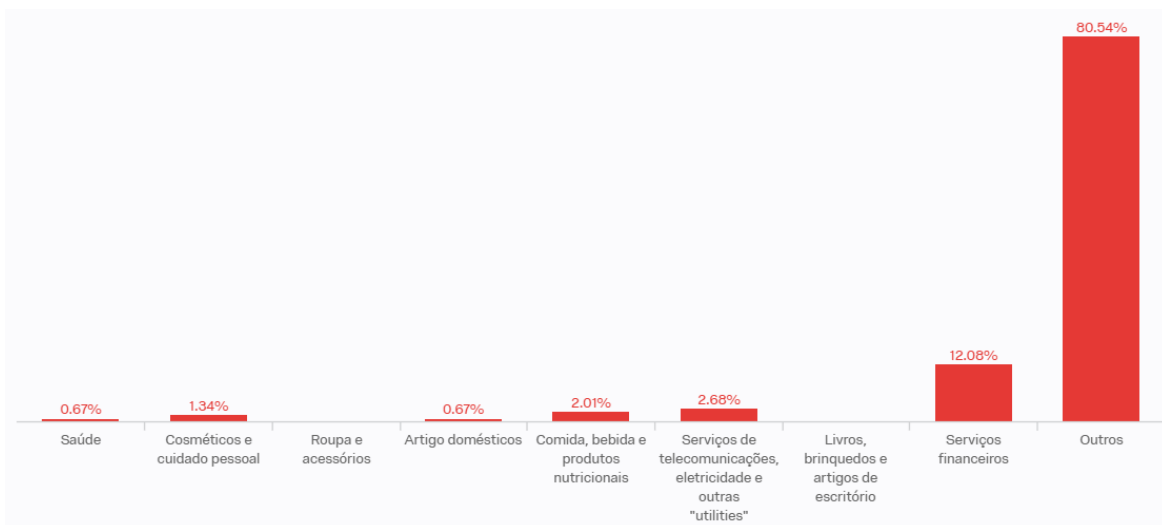
Looking to the weight of the earned money on the monthly income, 75,84% answered that the earned money from their distributors' activity represented 0-25% of the monthly total. An interesting fact to see was that were more people answering that their income's activity

## MLM and the impact on distributor's loyalty

represented 75-100 (15 representing 10,07%) than in the two previous categories 25-50% (13 representing 8,72%) and 50-75% (8 representing 5,37%).

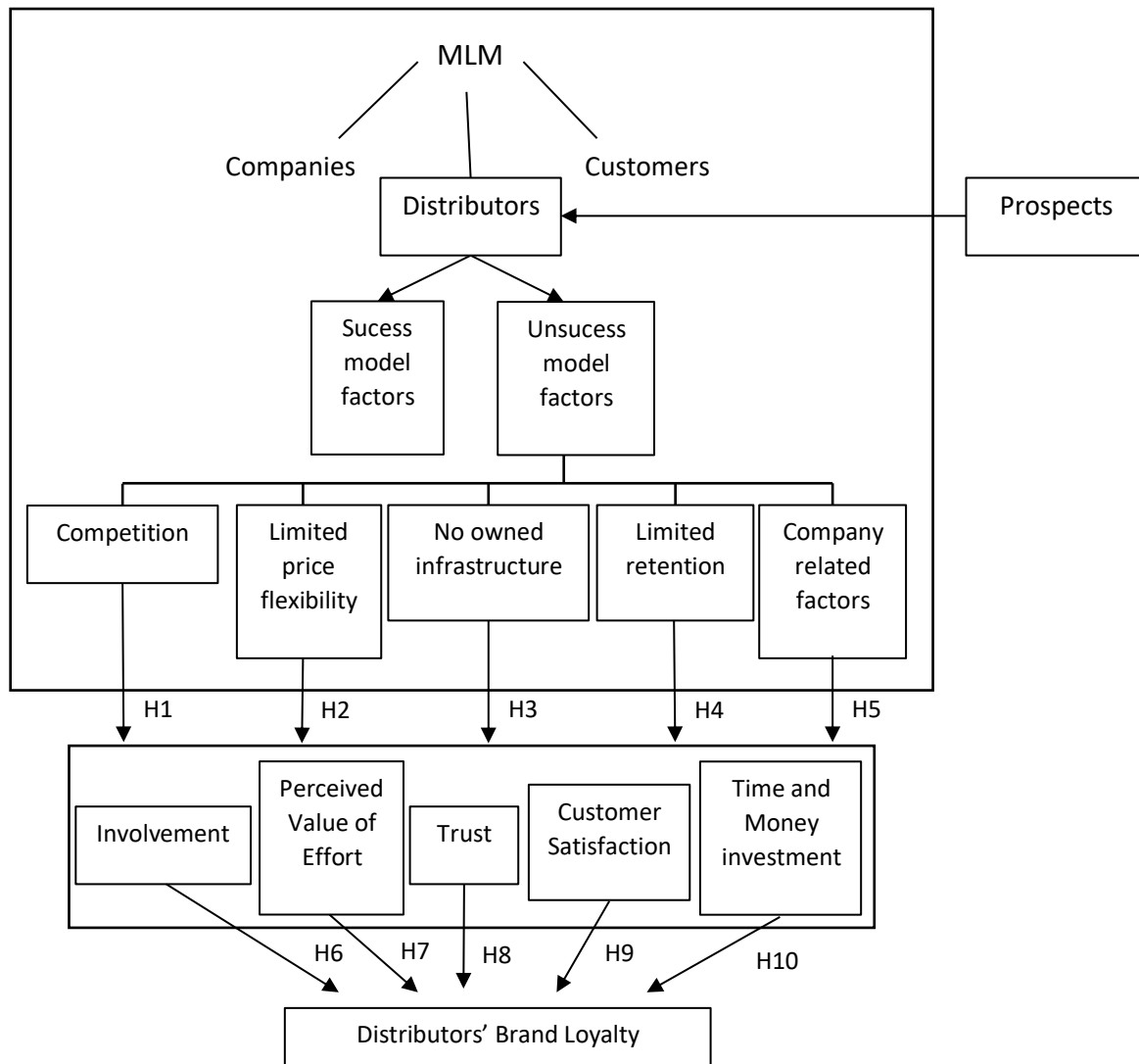


Since it was asked to a distributor of a specific company to help to gather the responses and 80,54% of those are in “other” category regarding the type of products and/or services sold by the company. Regarding the other categories of products and services, health took 0,67% of the answers, cosmetics 1,34%, household items 0,67%, food, drinks and nutritional supplements 2,01%, utilities 2,68% and financial services 12,08%.



## 6.2. Hypotheses analysis

Several questions built in order to better understand the relation between the unsucess model factors and loyalty. Before the questionnaire multiple hypothesis were presented and was constructed a model based on literature review. The model was the following:



Source: Author's elaboration adapted from Punniyamoorthy and Prasanna Mohan Raj (2007); Claudia Groß & Dirk Vriens (2017)

Taking into account the empirical analysis we can validate some of the hypothesis and reject others. The first assumptions were the negative impact caused by the unsucess model factors on the distributors' loyalty towards the brand. Just like the presentation of results, a double discussion will be done.

MLM and the impact on distributor's loyalty

### 6.2.1. Unsuccess model factors hypotheses

Regarding the hypothesis around Competition - **H1: Competition has a negative impact on distributors' loyalty constructs**, it was fully **rejected**.

- **H1a:** Competition has a negative impact on Involvement was **rejected**. Distributors attributed a 1.83 positive points impact (active 1.86 and non-active 1.71) on a scale from -3 to 3;
- **H1b:** Competition has a negative impact on Perceived value of effort was **rejected**. Distributors attributed a 2.01 positive points impact (active 2.07 and non-active 1.71) on a scale from -3 to 3;
- **H1c:** Competition has a negative impact on Trust was **rejected**. Distributors attributed 1.82 positive points impact (active 1.85 and non-active 1.63) on a scale from -3 to 3;
- **H1d:** Competition has a negative impact on Customer Satisfaction was **rejected**. Distributors attributed 1.52 positive points impact (active 1.55 and non-active 1.29) on a scale from -3 to 3;
- **H1e:** Competition has a negative impact on Time and money investment was **rejected**. Distributors attributed 1.89 positive points impact (active 1.93 and non-active 1.63) on a scale from -3 to 3;

Hypothesis were rejected in all parameters either by the active distributors and non-active. In fact, the Competition, according to distributors, have a high positive impact over the distributors' loyalty with all average values over the 1.5 (which is more than the half of the positive scale of the 6-points Likert scale). The loyalty construct less positively influenced by Competition was the Customer satisfaction with 1.52. The higher value was attributed to Perceived value of effort with 2.01 points. Competition generates competitiveness and that creates a challenge over the distributors and that challenge influences positively the value of effort – “If I make this, I would earn that.”.

Regarding the hypothesis around Limited price flexibility - **H2: Limited price flexibility has a negative impact on distributors' loyalty constructs**, it was fully **rejected**.

## MLM and the impact on distributor's loyalty

- **H2a:** Limited price flexibility has a negative impact on Involvement was **rejected**. Distributors attributed 0.59 positive points impact (active 0.59 and non-active 0.46) on a scale from -3 to 3;
- **H2b:** Limited price flexibility has a negative impact on Perceived value of effort was **reject**. Distributors attributed 0.67 positive points impact (active 0.72 and non-active 0.38) on a scale from -3 to 3;
- **H2c:** Limited price flexibility has a negative impact on Trust was **rejected**. Distributors attributed 0.76 positive points impact (active 0.82 and non-active 0.38) on a scale from -3 to 3;
- **H2d:** Limited price flexibility has a negative impact on Customer Satisfaction was **rejected**. Distributors attributed 0.43 positive points impact (active 0.48 and non-active 0.08) on a scale from -3 to 3;
- **H2e:** Limited price flexibility has a negative impact on Time and money investment was **rejected**. Distributors attributed 0.40 positive points impact (active 0.41 and non-active 0.29) on a scale from -3 to 3;

In all parameters either by the active distributors and non-active. Despite all had positive influence by Limited price flexibility, the positive impact, that it has over the loyalty constructs is lower than the Competition. The loyalty construct more positively influenced by Limited price flexibility is Trust with 0.72 points on average – more stable prices, more trust.

Regarding the hypothesis around No owned infrastructure – **H3: No owned infrastructure has a negative impact on distributors' loyalty constructs**, it was partial **rejected**.

- **H3a:** No owned infrastructure has a negative impact on Involvement was **rejected**. Distributors attributed 0.71 positive points impact (active 0.79 and non-active 0.21) on a scale from -3 to 3;
- **H3b:** No owned infrastructure has a negative impact on Perceived value of effort was **rejected**. Distributors attributed 0.79 positive points impact (active 0.85 and non-active 0.54) on a scale from -3 to 3;
- **H3c:** No owned infrastructure has a negative impact on Trust was **rejected**. Distributors attributed 0.22 positive points impact (active 0.29 and **non-active -0.21**)



## MLM and the impact on distributor's loyalty

on a scale from -3 to 3. For active distributors the no owned infrastructure has a smooth positive impact on the trust towards the company, however to non-active distributors it has a smooth negative impact in trust.

- **H3d:** No owned infrastructure has a negative impact on Customer Satisfaction was slightly **confirmed**. Distributors attributed a -0.02 points of impact (active 0.05 and **non-active -0.42**) on a scale from -3 to 3. Customer Satisfaction had different points of view when comparing active distributors and non-active distributors. Active distributors attributed an average value of 0.05. We can conclude that they have a slight positive view over the impact of having no owned infrastructure. However, non-active member pointed an average value of -0.42 which is a negative view over this MLM characteristic.
- **H3e:** No owned infrastructure has a negative impact on Time and money investment was **rejected**. Distributors attributed 0.63 points of impact (active 0.62 and non-active 0.67) on a scale from -3 to 3.

Almost all parameters showed a positive impact of not having an infrastructure as a distributor. Non-active member, once again, showed more pessimistic around the characteristics of MLM and the influence over loyalty constructs of them. In fact, no owning an infrastructure, for non-active distributors has a smooth negative impact in Trust. Only when the impact to measure was over the time and investment non-active distributors pointed a more positive impact. This pattern change might happen because of the overvaluation of the money that they didn't invest, and for that reason that won't be regrettable, since they are not active in the moment and don't have perspective of making money or recover their investment at least in the short run.

Having no owned infrastructure on average has a very small negative impact on Customer satisfaction. This result shows the importance for customer to have an easy physical contact with the brand. Its trust and connection to brand increases leading to a higher satisfaction.

Regarding the hypothesis around Limited retention – **H4: Limited retention has a negative impact on distributors' loyalty constructs**, it was generally **confirmed**.

## MLM and the impact on distributor's loyalty

- **H4a:** Limited retention has a negative impact on Involvement was **confirmed**. Distributors attributed -0.15 points of impact (active -0.04 and non-active -0.79) on a scale from -3 to 3.
- **H4b:** Limited retention has a negative impact on Perceived value of effort was **rejected**. Distributors attributed 0.05 points of impact (active 0.10 and **non-active -0.25**) on a scale from -3 to 3.
- **H4c:** Limited retention has a negative impact on Trust was **confirmed**. Distributors attributed -0.12 points of impact (active -0.09 and non-active -0.46) on a scale from -3 to 3.
- **H4d:** Limited retention has a negative impact on Customer Satisfaction was **confirmed**. Distributors attributed a -0.12 points of impact (active -0.05 and non-active -0.54) on a scale from -3 to 3.
- **H4e:** Limited retention has a negative impact on Time and money investment was **confirmed**. Distributors attributed a -0.10 points of impact (active -0.13 and **non-active 0.25**) on a scale from -3 to 3.

Almost all constructs are negatively influenced by Limited retention. However, these impacts been negative they have a small impact since all average values are higher or equal than -0.15 on scale from -3 to 3. A number that doesn't follow the pattern is the average value of the impact of Limited retention on Time and money investment attributed by non-active distributors. They quantify the impact of 0.25. Despite the low number it represents that Limited retention has a slight positive impact on the time and money that they invested in their distributors' activity. This might be related to the fact that they would probably work more and invest more in order to overcome the Limited retention of distributors.

Regarding the hypothesis around Company related factors – **H5: Company related factors have a negative impact on distributors' loyalty constructs;**

- **H5a:** Company related factors has a negative impact on Involvement, was **rejected**. Distributors attributed 0.54 points of impact (active 0.65 and **non-active -0.08**) on a scale from -3 to 3.

MLM and the impact on distributor's loyalty

- **H5b:** Company related factors has a negative impact on Perceived value of effort, was **rejected**. Distributors attributed 0.81 points of impact (active 0.79 and **non-active -0.04**) on a scale from -3 to 3.
- **H5c:** Company related factors has a negative impact on Trust, was **rejected**. Distributors attributed 0.64 points of impact (active 0.79 and **non-active -0.04**) on a scale from -3 to 3.
- **H5d:** Company related factors has a negative impact on Customer Satisfaction, was **rejected**. Distributors attributed 0.58 points of impact (active 0.66 and **non-active -0.08**) on a scale from -3 to 3.
- **H5e:** Company related factors has a negative impact on Time and money investment, was **rejected**. Distributors attributed 0.74 points of impact (active 0.87 and non-active 0.08) on a scale from -3 to 3.

All constructs are positively influenced by Company related factors. All the parameters maintain the previous pattern, active distributors having a more positive view of the impact of the unsuccessful model factor towards the constructs than the non-active distributors. The hypothesis, considering the average values, were rejected, although the average values evaluating the impact given by non-active distributors were slightly negative in Involvement, Perceived value of effort, Trust and Customer satisfaction. The construct highly impacted by Company related factors was Perceived value of effort with 0.81 on average and the less impacted was the Involvement with 0.54.

When asked to order the unsuccessful factors by their impact towards the loyalty of the distributor, where 1 the one with the biggest impact and 5 the one with the lowest, distributors on average answered the following:

- Limited retention had: 2,63
- Company related factors: 2,78
- Competition: 3.01
- No owned infrastructure: 3.24
- Limited price flexibility: 3.34

## MLM and the impact on distributor's loyalty

Although these had been the average there are differences on the average order attributed to unsuccessful model factors impact towards the distributors' loyalty by active distributors and non-active distributors. Active distributors average order values are the following:

- Limited retention: 2.52
- Company related factors: 2.80
- Competition: 3.00
- No owned infrastructure: 3.31
- Limited price flexibility: 3.37

Non-active distributors average values are the following:

- Company related factors: 2.54
- No owned infrastructure: 2.83
- Limited retention: 3.13
- Competition: 3.21
- Limited price flexibility: 3.29

By analysing these values, we can understand that active and non-active distributors evaluate the distributors activity and the unsuccessful model factors and their impact differently. An interesting fact is that Company related factors are the number one factor that decreases the distributors loyalty towards the company and having no owned infrastructure the second. Both average order values are higher than those answered by the active distributors. Company related factors got 2.80 in active members and 2.54 in non-active and No owned infrastructures 3.31 in active distributors and 2.83 in non-active distributors.

An interesting result that showed as a pattern over the questionnaire is that in almost parameters, the standard deviation is higher in non-active distributors. This behavior can be explained by the possible alignment of strategies and point of view that active distributors might have.

These values help to better understand the weight of each factor in the loyalty as whole.

MLM and the impact on distributor's loyalty

### 6.2.2. Loyalty Constructs hypotheses

Regarding the Loyalty constructs, one of the models' assumption was that they impacted the loyalty of the distributors towards the brand. It was asked to quantify on a scale 1-5 the impact of the constructs on loyalty. 1 represented extremely negative and 5 extremely positive (neutral value 3). The results of the question can test the hypothesis around the constructs.

- **H6:** Involvement has a positive impact on distributors' brand loyalty was **confirmed**. The average value that it got was 4.56;
- **H7:** Perceived value of effort has a positive impact on distributors' brand loyalty was **confirmed**. The average value that it got was 4.66;
- **H8:** Trust has a positive impact on distributors' brand loyalty was **confirmed**. The average value that it got was 4.82;
- **H9:** Customer satisfaction has a positive impact on distributors' brand loyalty was **confirmed**. The average value that it got was 4.48;
- **H10:** Time and money investment has a positive impact on distributors' brand loyalty was **confirmed**. The average value that it got was 4.32;

The results answers were on average extremely positives confirming the proposed hypothesis.

### 6.3. Liner regression analysis

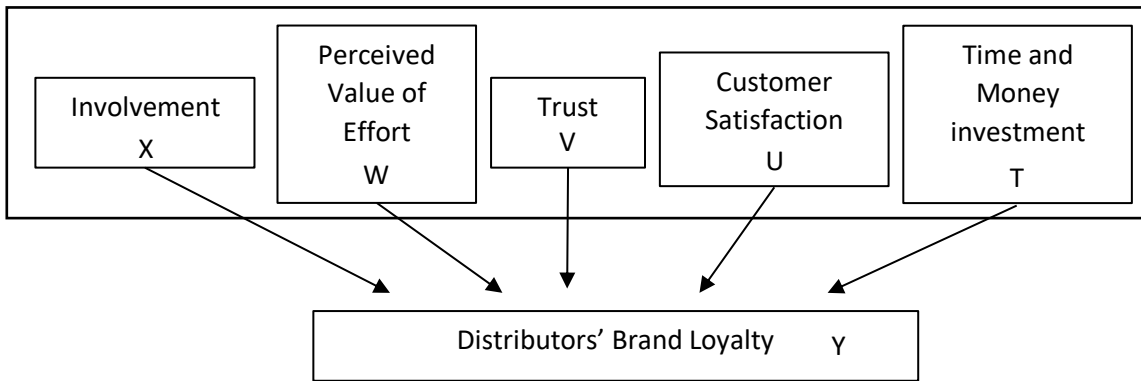
As mentioned before, this study had the aim to better explain the distributors loyalty towards the MLM companies. The framework relies on the MLM structure and mainly in the factors that influence positively and negatively the distributors work. Several factors through literature review were found that could decrease the distributors' loyalty and by consequence their outcomes in their activity. These factors influence directly the daily work of distributors and for that reason they have impact on their loyalty towards the company. The questionnaire was conducted in order to understand those links and to quantify the link of loyalty constructs and loyalty itself. Due to this network of connections, in order to quantify and better analyse all variables and their impact on each other, it is important to create a regression model.

In our regression model we have our dependent variable, independent variables and the impact of independent variables on dependent variables. Our independent variables are the

MLM and the impact on distributor's loyalty

loyalty constructs that influence independently the distributors' loyalty. In our model the loyalty constructs will be denominated as X.

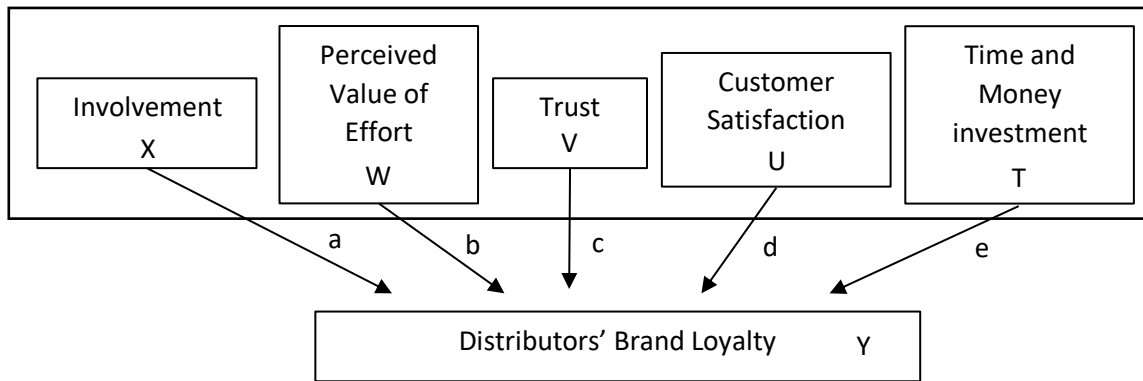
- X=Involvement;
- W=Perceived Value of Effort;
- V=Trust;
- U=Customer Satisfaction;
- T= Time and Money investment;



The constructs have different weight on Loyalty and that difference were given by the values that confirmed the H6, H7, H8, H9 and H10 hypothesis. Those values give us the relation of them with loyalty and because of having a common denominator and **the initial model has as an assumption five constructs partially relying on work of Punniyamoorthy and Prasanna Mohan Raj regarding the loyalty**. These relations turn out possible the weightening of the relative impact (parameters) that each loyalty constructs has on distributors' loyalty.

- a= parameter of X, measured in relative weight;
- b= parameter of W, measured in relative weight;
- c= parameter of V, measured in relative weight;
- d= parameter of U, measured in relative weight;
- e= parameter of T, measured in relative weight;

## MLM and the impact on distributor's loyalty



Taking into consideration the values attributed by distributors to the relation between Loyalty constructs and loyalty (1-5, 1 the more negative impact and 5 the more positive impact) we had:

- a=4.56
- b=4.66
- c=4.82
- d=4.48
- e=4.32

Assuming, b as the denominator we can reach to other equivalent values of a, c, d and e that are related to b and with each of the others:

- $a=4.56/4.66 \square a=0.979b$ ;
- $b=4.66/4.66 \square b=1b$ ;
- $c=4.82/4.66 \square c=1.034b$ ;
- $d=4.48/4.66 \square d=0.961b$ ;
- $e=4.32/4.66 \square e=0.927b$ ;

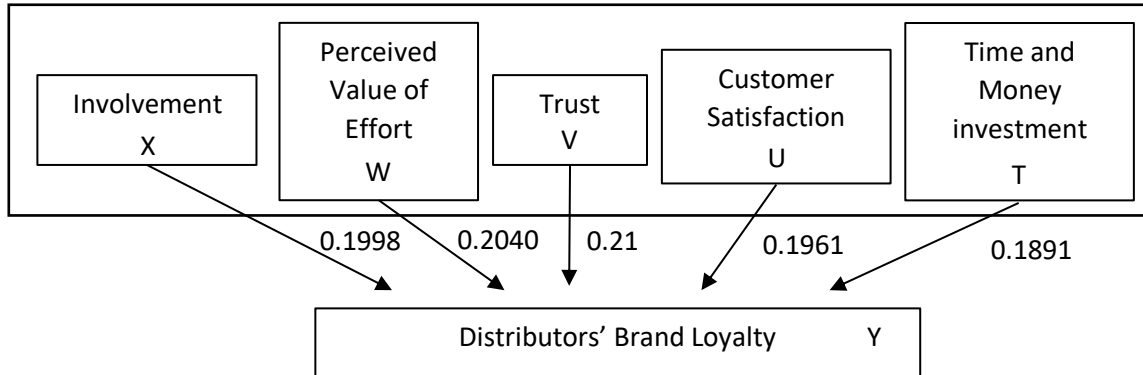
$$\sum b = 0.979b + 1b + 1.034b + 0.961b + 0.927b \square \sum b = 4.901b$$

Relative weight of coefficients:

- $a=0.979b/4.901b \square a=0.1998b \Rightarrow$  implies that has 19,98% of the impact on loyalty;
- $b=1b/4.901b \square b=0.2040b \Rightarrow$  implies that has 20,40% of the impact on loyalty;
- $c=1.034b/4.901b \square c=0.210b \Rightarrow$  implies that has 21% of the impact on loyalty;
- $d=0.961b/4.901b \square d=0.1961b \Rightarrow$  implies that has 19,61% of the impact on loyalty;

## MLM and the impact on distributor's loyalty

- $e=0.927b/4.901b \square e=0.1891b \Rightarrow$  implies that has 18,91% of the impact on loyalty;



By consequence of having those coefficient values our regression has this format:

$$Y = 0.1998X + 0.2040W + 0.21V + 0.1961U + 0.1891T$$

In order to have a clear answer around the loyalty (Y) there are remaining variables to understand. That variables are (theoretically) negatively influenced by unsuccess model factors. Reminding, the unsuccess model factors were:

- Competition;
- Limited price flexibility;
- No owned infrastructure;
- Limited retention;
- Company related factors;

Each of these factors influence the loyalty constructs. The proposed hypotheses were that these “unsuccess model factors” influenced negatively each of the loyalty constructs, however only 5 of the proposed hypotheses (out of 25) were confirmed. The other 20 were rejected. These unsuccess model factors were perceived by distributors as positive influencing factors.

Each of the loyalty constructs is influenced differently by the “unsuccess model factors”. As it was attributed, the five loyalty constructs and their correspondent variables are:

- X=Involvement;
- W=Perceived value of effort;
- V=Trust;



MLM and the impact on distributor's loyalty

- U=Customer satisfaction;
- T=Time and money investment;

The attributed values by active and non-active distributors on a scale -3 to 3 (-3 extremely negative impact and 3 extremely positive impact) to loyalty constructs were:

- Involvement:
  - Competition = 1.83
  - Limited price flexibility = 0.59
  - No owned infrastructure = 0.71
  - Limited retention = -0.15
  - Company related factors = 0.54

Higher the value higher the impact. By reviewing the literatures there were found some MLM model characteristics that could impact positively and impact negatively the loyalty. In order to measure the loyalty constructs we have to sum all unsuccessful model factors' impacts.

$$\Sigma = 1.83 + 0.59 + 0.71 - 0.15 + 0.54 = 3.52 = X$$

Since the maximum values for each of the model factors were 3 and the minimum were -3 and we have 5 factors, the sum is of the maximum and the minimum values is the range of the scale -15 to 15.

- Perceived value of effort:
  - Competition = 2.01
  - Limited price flexibility = 0.67
  - No owned infrastructure = 0.79
  - Limited retention = 0.05
  - Company related factors = 0.81

$$\Sigma = 2.01 + 0.67 + 0.79 + 0.05 + 0.81 = 4.33 = W$$

- Trust:
  - Competition = 1.82
  - Limited price flexibility = 0.76

MLM and the impact on distributor's loyalty

- No owned infrastructure = 0.22
- Limited retention = -0.12
- Company related factors = 0.64

$$\Sigma = 1.82 + 0.76 + 0.22 - 0.12 + 0.64 = 3.32 = V$$

• Customer Satisfaction:

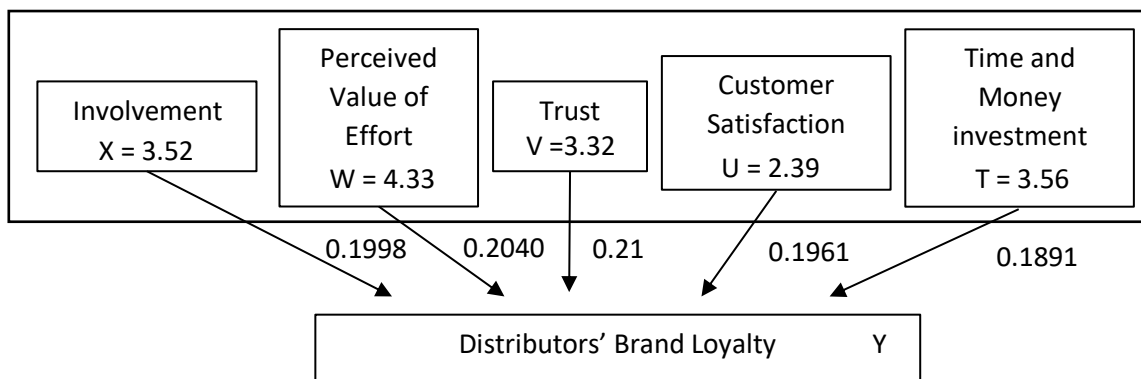
- Competition = 1.52
- Limited price flexibility = 0.43
- No owned infrastructure = -0.02
- Limited retention = -0.12
- Company related factors = 0.64

$$\Sigma = 1.52 + 0.43 - 0.02 - 0.12 + 0.58 = 2.39 = U$$

• Time and money investment:

- Competition = 1.89
- Limited price flexibility = 0.40
- No owned infrastructure = 0.63
- Limited retention = -0.10
- Company related factors = 0.74

$$\Sigma = 1.89 + 0.40 + 0.63 - 0.10 + 0.74 = 3.56 = T$$



Previously our regression had this format:

$$Y = 0.1998X + 0.2040W + 0.21V + 0.1961U + 0.1891T$$

## MLM and the impact on distributor's loyalty

In order to better understand the loyalty constructs, it is important to look for how do the “unsuccess model factors” impact them. Taking into account the population that answered we can present and calculate the average impact in loyalty towards their MLM company.

$$Y = 0.1998*3.52 + 0.2040*4.33 + 0.21*3.32 + 0.1961*2.39 + 0.1891*3.56$$

$$Y = 3.4257$$

As it was stated, the scale range is from -15 to 15 and the result explains the impact that MLM characteristics have on distributors' activity. This perception changes either from MLM company to another (because MLM characteristics impact differently each company) and from distributor to distributor. A higher value represents a higher positive impact on distributors' loyalty. A lower value represents a more negative impact on distributors' loyalty. Depending on the study the value can also be interpreted as the value of the loyalty.

The result value demonstrates that the testes model factors are not perceived by distributors as being “unsuccess factors” since the value is positive. However, a value of 3.4257 is not that big, clearly demonstrating that the factors in study have a moderate positive impact on loyalty. The summary of the study is showed below:

| Loyalty Constructs /<br>Unsuccess Model Factors<br>(-3 – 3)             | Involvement | Perceived Value<br>of Effort | Trust | Customer<br>Satisfaction | Time and money<br>investment |
|---|-------------|------------------------------|-------|--------------------------|------------------------------|
| Competition   | 1.83        | 2.01                         | 1.82  | 1.52                     | 1.89                         |
| Limited price flexibility   | 0.59        | 0.67                         | 0.76  | 0.43                     | 0.40                         |
| No owned infrastructure   | 0.71        | 0.79                         | 0.22  | -0.02                    | 0.63                         |
| Limited Retention   | -0.15       | 0.05                         | 0.12  | -0.12                    | -0.10                        |
| Company related factors   | 0.54        | 0.81                         | 0.64  | 0.58                     | 0.74                         |
| Unsuccess model factors<br>impact over loyalty<br>constructs (-15 – 15) | 3.52        | 4.33                         | 3.32  | 2.39                     | 3.56                         |
| Relative impact of loyalty<br>constructs over loyalty                   | 0.1998      | 0.2040                       | 0.21  | 0.1961                   | 0.1891                       |
| Loyalty of the sample   | 3.4257      |                              |       |                          |                              |

MLM and the impact on distributor's loyalty

## **7. Conclusion**

### **7.1. Major Findings**

Despite being present in hundreds of countries all over the world and have some of the big players in some sectors, MLM industry still have to conquer its space and credibility when concerning the public opinion. This study wants to give a step forward to give more credibility to MLM industry and to give a better tool to managers to analyse the trends. It offers a profound study around MLM in order to reach to proposed model.

The proposed model brings a tool to quantify a concept that is hard to measure which is the loyalty. This concept, especially in MLM reveals as extremely important since it is the motivational engine of distributors, which by consequence are the engine of a MLM company. The model helped to better understand how specific characteristics influenced the loyalty and to answer to specific literature review points in order to better understand their impact in MLM.

It was found out that the distributors' perception of the so called "unsuccess model factors" are not that negative, in fact, almost all the factors were considered as having a positive influence over the distributors' loyalty. Only limited retention, among the "unsuccess model factors" revealed itself with a global negative impact over the loyalty constructs. The others revealed having a global positive impact. Among the loyalty constructs, as it was expected, all revealed empirically, having a positive impact over the loyalty.

Concerning the loyalty constructs, they revealed having positive impact over the loyalty confirming each of the hypotheses around them.

More, the study gives the kickstart to a determine the loyalty in MLM by applying the created index. It gives the possibility to add more loyalty constructs and to study differently the model factors and their influence over the loyalty constructs.

### **7.2. Academic Implications**

Previously to this study, the loyalty in MLM had a blank knowledge area. Loyalty, as has been discussed, reveals as an extremely important concept in MLM industry specially when concerning the link between distributors and companies. Stronger the link, stronger the loyalty, strong the added value by distributors to the company.

MLM and the impact on distributor's loyalty

Helping people to better understand what the value chain of industry is, the different contributions to the industry and help manager to make better decisions with the possibility of having numerical results applied to an open concept that is loyalty were the aim of the study. This specific field is now opened to the academics and scholars to work around. The division between "success" and "unsuccess" model factors gives a new overview to MLM and gives the (previous mentioned) kickstart to a more profound study of MLM and loyalty.

This academical work has two clear parts, the first where MLM industry is explored in order to better elaborate a model and reach to a significant content to analyse. And the second part is the model where the aim is to better understand how a specific set of variables (in this case are also the industry characteristics) influence the loyalty of distributors towards their company. Both can now be scrutinized, and certainty differently analysed with this contribution.

The consolidation of the previously dispersed knowledge can be itself a good academic contribution of this work. Gathering the several authors and their contributions to this field (MLM) added value to the academical community, and that value is delivered by this compilation. More, it was scientifically analysed the MLM's model, which still has some clouds around it (especially because of the pyramid schemes), giving a step forward to clarify the theme.

In the end, it is delivered to academic universe a profound study of MLM and how their model factors influence the distributors' loyalty towards the company.

### **7.3. Managerial Implications**

This study gives an adapted method to firms and stakeholders of MLM to measures the loyalty of the distributors towards a specific company or environment (the analysis can be made on different populations and depending on that it will have different interpretations). It gives an approach that can be on the future explored to understand better all the environment that surrounds the distributors' activity. This is an important question to MLM companies' managers since the companies are totally or at least partially implemented by distributors.

The model in study on this thesis is also a flexible model since it can be applied by managers to better understand the link of the distributors to their company. It gives them a tool to

MLM and the impact on distributor's loyalty

explore and understand better the company that they are running. Increase the loyalty is probably the hardest task that managers in MLM companies have. A more loyal distributor is more linked to company and tendentially will do more. Managers with this model and study have tool to better understand how a specific measure, product, service, compensation, etc... affected the loyalty of distributors. They can analyse the evolution of the loyalty through time in their company and link that evolution to specific management strategies. It can be interesting to analyse some measure in a *ceteris paribus* study, where all the variables remain the same except one – the one which the managers might wanted to study. This can help managers to better quantify their actions and decisions, since the best way to analyse the current trend of the company is to understand the behavior, the outcome and the perceptions of distributors towards that specific variable.

#### **7.4. Limitations & Future research**

Despite representing a tremendous effort, this study, just like almost every other has some limitations.

- First an obvious limitation is the fact that the model proposes to better study the loyalty which a broad concept, hard to define and even harder to quantify. It depends a lot on the interpretation of the individual. It was assumed 5 constructs but could be assumed more, less or simply different constructs. However, the explored method is universal and easy to apply in the future for a broader and more profound study surrounding this topic;
- In order to the analysis to become more accurate it is important to have a wider population and it might be interesting in the future explore, different studies, either for active distributors and non-active distributors in order to better understand how they perceive the same characteristics and what can be done by managers in order to increase the retention and what could be possibly done in order to invert the non-active status of some distributors to active;
- Third, the given answer by the active distributors can be biased since their interpretation of the factors and how these influence loyalty, can be shaped by a continuous group influence. In fact, this possibility can be seen in the standard

deviation. Active members demonstrate continuously less standard deviation, meaning a more concentrate answer around the topics.

- The age class of the sample was concentrated in the first group (between 18-35) with 93,29% belonging to this group. 4,7% belonged to the second between 36-50 and 2,01% to the third between 51-65. No answer was registered for those who have more than 65 years old.
- In order to ease the study some factors were aggregated. These aggregations might have created bias. This will be taking into account for a future research.
- The population is biased since almost every member belong to a specific company (because it was asked a little help to get answers and they consequently responded massively. It would be interesting having a population from more sectors and a wider and more numerous population in order to give more accurate results;
- This study focused in how the MLM model factors influence the loyalty of distributors. However, sometime there are other personal factors that might influence the loyalty of distributors towards the companies. For a future research might be interesting to understand how these personal factors possibly influence the loyalty of distributors.

## 8. References

- Ahmad, N., Vveinhardt, J., & Ahmed, R. R. (2014). Impact of word of mouth on consumer purchase intention. *European Journal of Business and Management*, 6(31), 394–400.
- Ahmad, N., Vveinhardt, J., Ahmed, R. R., Basri, N. A. H., Ahmad, R., Anuar, F. I., ... Zamil, A. M. (2016). Management and the Marketing Revolution - Merchandising Strategies for the New Era - Weiss, Eb. *Journal of Marketing*, 48(4), 122–145. <https://doi.org/10.1016/j.ijresmar.2008.04.001>
- Albaum, G., & Peterson, R. A. (2011). Multilevel (network) marketing: An objective view. *Marketing Review*, 11(4), 347–361. <https://doi.org/10.1362/146934711X13210328715902>
- Associations, W. F. of D. S. (2016). *Global Sales by Product Category - 2014*. 1–3.
- Basri, N. A. H., Ahmad, R., Anuar, F. I., & Ismail, K. A. (2016). Effect of Word of Mouth Communication on Consumer Purchase Decision: Malay Upscale Restaurant. *Procedia - Social and Behavioral Sciences*, 222, 324–331. <https://doi.org/10.1016/j.sbspro.2016.05.175>

MLM and the impact on distributor's loyalty

Batra, R., & Keller, K. L. (2016). Integrating marketing communications: New findings, new lessons, and new ideas. *Journal of Marketing*, 80(6), 122–145. <https://doi.org/10.1509/jm.15.0419>

Ben Schiller. (2016). No Title. Retrieved from “How Soon before Your Job Is Done by a Robot?” website: <https://www.fastcompany.com/90400807/the-real-cost-of-not-wearing-makeup-at-the-office>

Bhasin, H. (2018). Keller's Brand equity Model – CBBE Model by Keller. Retrieved from <https://www.marketing91.com/kellers-brand-equity-model/>

Bloemer, J. M. M., & Kasper, H. D. P. (1995). The complex relationship between consumer satisfaction and brand loyalty. *Journal of Economic Psychology*. [https://doi.org/10.1016/0167-4870\(95\)00007-B](https://doi.org/10.1016/0167-4870(95)00007-B)

Brodie, S., Albaum, G., Chen, D.-F. R., García, L., Kennedy, R., Msweli-Mbanga, P., ... Wotruba, T. R. (2004). Public perceptions of direct selling: an international perspective. *Westminster Business*, 3–28. Retrieved from <http://www.abevd.org.br/downloads/selling.pdf>

Brodie, S., Albaum, G., Chen, D.-F. R., García, L., Kennedy, R., Msweli-Mbanga, P., ... Verwaal, E. (2017). As Diferenças entre Marketing Multinível e as Pirâmides Financeiras ou “Esquema de Pirâmides.” *Revista Brasileira de Marketing*, 16(02), 3–28. <https://doi.org/10.5585/remark.v16i2.3579>

Cardenas, D., & Fuchs-Tarlovsky, V. (2018). Is multi-level marketing of nutrition supplements a legal and an ethical practice? *Clinical Nutrition ESPEN*, 25, 133–138. <https://doi.org/10.1016/j.clnesp.2018.03.118>

Chen, D. R., & Cheng, S. (2000). *The Behavior of Independent Distributors of MLM Companies in Taiwan*. 1–8.

Chen, Y., & Lee, Y. (2017). *Online Apparel Shopping Behavior Effects of Consumer Information Search on Purchase Decision Making in the Digital Age*. (iCAST), 143–148.

Choudhary, R. (2013). *MULTI-LEVEL MARKETING (MLM) FOR SOCIO-ECONOMIC DEVELOPMENT*. 2(1).

Churchill, G. A., Ford, N. M., Hartley, S. W., & Orville, C. (1985). *The Determinants of Salesperson Performance: XXII*(May).

Ciongradi, I. M. (2017). Multilevel Marketing for everybody is not forever. *Bulletin of the Transilvania University of Braşov*, 10(2). Retrieved from [www.rodsa.ro](http://www.rodsa.ro)



MLM and the impact on distributor's loyalty

Colliander, J., Söderlund, M., & Szugalski, S. (2016). Multi-level loyalty program rewards and their effects on top-tier customers and second-tier customers. *Journal of Consumer Marketing*, 33(3), 162–171. <https://doi.org/10.1108/JCM-03-2015-1349>

Commission, F. T. (2018). Business Guidance Concerning Multi-Level Marketing. Retrieved from <https://www.ftc.gov/tips-advice/business-center/guidance/business-guidance-concerning-multi-level-marketing>

Comissão para a Igualdade no Trabalho e no Emprego. (2017). *Desigualdade Salarial entre Homens e Mulheres em Portugal*. 1–8.

Crittenden, V. L., & Crittenden, W. F. (2004). Developing the sales force, growing the business: The direct selling experience. *Business Horizons*, 47(5), 39–44. <https://doi.org/10.1016/J.BUSHOR.2004.07.007>

Crittenden, V. L., & Albaum, G. (2015). The misplaced controversy about internal consumption: Not just a direct selling phenomenon. *Business Horizons*, 58(4), 421–429. <https://doi.org/10.1016/J.BUSHOR.2015.03.007>

Dinheiro Vivo. (2018). Os 10 youtubers mais bem pagos de 2018. O 1º lugar? Uma criança... de 7 anos. Retrieved from <https://www.dinheirovivo.pt/lifestyle/galeria/conheca-os-youtubers-mais-bem-pagos-em-2018/>

East, R., Hammond, K., & Lomax, W. (2008). Measuring the impact of positive and negative word of mouth on brand purchase probability. *International Journal of Research in Marketing*, 25(3), 215–224. <https://doi.org/10.1016/j.ijresmar.2008.04.001>

FBI. (2019). *Pyramid Schemes*. Retrieved from <https://www.fbi.gov/scams-and-safety/common-fraud-schemes/pyramid-schemes>

Figueiredo, M. (2010). *PLANO DE MARKETING PARA UMA MICROEMPRESA DE VENDA DIRECTA AO DOMICÍLIO* Cláudia Sofia Nunes Fernandes Projecto de Mestrado em Gestão Relatório de Projecto apresentado ao Instituto Superior de Ciências do Trabalho e da Empresa como requisito parcial para a .

Figueiredo, M., Gabeur, H., Gontkovičová, B., Mihalčová, B., Pružinský, M., Gorry, A., ... Hsieh, H. (2015). Consumer's behavior facing word-of-mouth and the impact on marketing point of view: Exploratory analysis. *Procedia Economics and Finance*, 23(September), 1–86. [https://doi.org/10.1016/s2212-5671\(15\)00554-7](https://doi.org/10.1016/s2212-5671(15)00554-7)

Forys, I., & Gaca, R. (2017). Application of the Likert and Osgood Scales to Quantify the Qualitative Features of Real Estate Properties. *Folia Oeconomica Stetinensia*, 16(2), 7–16. <https://doi.org/10.1515/fofi-2016-0021>

Gallagher, J. (2018). “Remarkable” decline in fertility rates. Retrieved from <https://www.bbc.com/news/health-46118103>

MLM and the impact on distributor's loyalty

- Gontkovičová, B., Mihalčová, B., & Pružinský, M. (2015). Youth Unemployment – Current Trend in the Labour Market? *Procedia Economics and Finance*, 23(October 2014), 1680–1685. [https://doi.org/10.1016/s2212-5671\(15\)00554-7](https://doi.org/10.1016/s2212-5671(15)00554-7)
- Gorry, A. (2013). Minimum wages and youth unemployment. *European Economic Review*, 64, 57–75. <https://doi.org/10.1016/j.euroecorev.2013.08.004>
- Gorry, A., Gontkovičová, B., Mihalčová, B., Pružinský, M., Figueiredo, M., Gabeur, H., ... Hsieh, H. (2015). Minimum wages and youth unemployment. *Procedia Economics and Finance*, 23(September), 1680–1685. [https://doi.org/10.1016/s2212-5671\(15\)00554-7](https://doi.org/10.1016/s2212-5671(15)00554-7)
- Gregor, B., & Wadlewski, A.-A. (2013). Multi-Level Marketing as a business model. *Marketing of Scientific and Research Organisations*, 7(1), 2–19. <https://doi.org/10.14611/minib.07.01.2013.09>
- Groeger, L., & Buttle, F. (2016). Deciphering word-of-mouth marketing campaign reach: Everyday conversation versus institutionalized word of mouth. *Journal of Advertising Research*, 56(4), 368–384. <https://doi.org/10.2501/JAR-2016-043>
- Groß, C., & Vriens, D. (2019). The Role of the Distributor Network in the Persistence of Legal and Ethical Problems of Multi-level Marketing Companies. *Journal of Business Ethics*, 156(2), 333–355. <https://doi.org/10.1007/s10551-017-3556-9>
- Hacibedel, B., Mandon, P., Muthooru, P., & Pouokam, N. (2019). Inequality in Good and Bad Times. *IMF Working Papers*, 19(20), 1. <https://doi.org/10.5089/9781484392911.001>
- Hamada, K. (2010). *Outsourcing versus In-house Production: The Case of Product Differentiation with Cost Uncertainty*. 23(4).
- Herbalife. (2019). Retrieved from <https://www.herbalife.pt/>
- HERBALIFE COMMUNICATION STRATEGY DEVELOPMENT AND IMPLEMENTATION IN BALTIC COUNTRIES. (2017). Retrieved from <https://repute.lv/en/portfolio/herbalife-introducing-formula-1/>
- Hiranpong, R., Decharin, P., & Thawesaengskulthai, N. (2016). Structural equation modeling of a potentially successful person in network marketing. *Kasetsart Journal of Social Sciences*, 37(1), 22–29. <https://doi.org/10.1016/j.kjss.2016.01.009>
- Hitesh Bhasin. (2018). SWOT Analysis of Amway. Retrieved from <https://www.marketing91.com/swot-analysis-amway/>
- HODGSON, G. M. (2019). Capitalism, Cronyism, and Democracy. *Independent Review*, 23(3), 345–355. Retrieved from

MLM and the impact on distributor's loyalty

<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=134459640&site=eds-live>

Ivashkova, N., Sidorchuk, R., & Skorobogatykh, I. (2018). Studying distributor-consultants' involvement into MLM business in the russian perfume and cosmetics market. *Espacios*, 39(33).

Jalilvand, M. R., Esfahani, S. S., & Samiei, N. (2011). Electronic word-of-mouth: Challenges and opportunities. *Procedia Computer Science*, 3, 42–46. <https://doi.org/10.1016/j.procs.2010.12.008>

Jeunesse Global. (2019). Retrieved from <https://www.jeunesseglobal.com/pt-PT/>

Juanico, D. E. (2012). *Critical network effect induces business oscillations in multi-level marketing systems*. (1), 1–5. Retrieved from <http://arxiv.org/abs/1209.5576>

Kim, B. J., Jun, T., Kim, J. Y., & Choi, M. Y. (2006). Network marketing on a small-world network. *Physica A: Statistical Mechanics and Its Applications*, 360(2), 493–504. <https://doi.org/10.1016/j.physa.2005.06.059>

Knox, S., & Walker, D. (2010). *Measuring and managing brand loyalty*. 4488(2001). <https://doi.org/10.1080/713775733>

Koehn, D. (2001). Ethical Issues Connected with Multi-Level Marketing Schemes. *Journal of Business Ethics*, 29(1/2), 153–160. <https://doi.org/10.1023/A:1006463430130>

Leblang, P. (1964). Management and the Marketing Revolution - Merchandising Strategies for the New Era - Weiss, Eb. *Journal of Marketing*, 28(4), 115–116.

Lee Siew Keong, & Omkar Dastane. (2019). Building a Sustainable Competitive Advantage for Multi-Level Marketing (MLM) Firms: An Empirical Investigation of Contributing Factors. *Journal of Distribution Science*, 17(3), 5–19. <https://doi.org/10.15722/jds.17.3.201903.5>

Legara, E. F., Monterola, C., Juanico, D. E., Litong-Palima, M., & Saloma, C. (2008). Earning potential in multilevel marketing enterprises. *Physica A: Statistical Mechanics and Its Applications*, 387(19–20), 4889–4895. <https://doi.org/10.1016/j.physa.2008.04.009>

Liao, S., Chen, Y., & Hsieh, H. (2011). Mining customer knowledge for direct selling and marketing. *Expert Systems with Applications*, 38(5), 6059–6069. <https://doi.org/10.1016/J.ESWA.2010.11.007>

Limayem, M., Khalifa, M., & Frini, A. (2000). What makes consumers buy from Internet? A longitudinal study of online shopping. *IEEE Transactions on Systems, Man, and Cybernetics - Part A: Systems and Humans, Systems, Man and Cybernetics, Part A:*

MLM and the impact on distributor's loyalty

*Systems and Humans, IEEE Transactions on, IEEE Trans. Syst., Man, Cybern. A*, 30(4), 421–432. <https://doi.org/10.1109/3468.852436>

Lingelbach, D., Patino, A., & Pitta, D. A. (2012). The emergence of marketing in Millennial new ventures. *Journal of Consumer Marketing*, 29(2), 136–145. <https://doi.org/10.1108/07363761211206384>

Macias, M. (2016). *Deciphering Word-Of-Mouth Marketing Campaign Research Everyday Conversation VS Institutionalized Word-Of-Mouth*.

Madichie, N. (2010). Global Marketing Management. In *Management Decision* (Vol. 48). <https://doi.org/10.1108/00251741011076816>

Makni, V. (2016). *Public Perceptions Towards Network*. (February), 0–10.

Matzler, K., Füller, J., Mooradian, T. A., & William, C. (2011). *Personality, person – brand fit, and brand community: An investigation of individuals, brands, and brand communities*. 27(August), 874–890. <https://doi.org/10.1080/0267257X.2010.543634>

Michelle Howard, T. D. (2018). New Survey Reveals 73 Percent of People who Participate in Network Marketing Opportunities Lose Money or Make No Money. Retrieved from <https://www.prnewswire.com/news-releases/new-survey-reveals-73-percent-of-people-who-participate-in-network-marketing-opportunities-lose-money-or-make-no-money-300727716.html>

Nat, P. J. Vander, & Keep, W. W. (2003). Marketing Fraud: An Approach for Differentiating Multilevel Marketing from Pyramid Schemes. *Journal of Public Policy & Marketing*, 21(1), 139–151. <https://doi.org/10.1509/jppm.21.1.139.17603>

Pang, J. C. S., & Monterola, C. P. (2017). Dendritic growth model of multilevel marketing. *Communications in Nonlinear Science and Numerical Simulation*, 43, 100–110. <https://doi.org/10.1016/j.cnsns.2016.06.030>

Punniyamoorthy, M., & Prasanna Mohan Raj, M. (2007). An empirical model for brand loyalty measurement. *Journal of Targeting, Measurement and Analysis for Marketing*, 15(4), 222–233. <https://doi.org/10.1057/palgrave.jt.5750044>

Rahwan, T., Naroditskiy, V., Michalak, T., Wooldridge, M., & Jennings, N. R. (2014). *Towards a Fair Allocation of Rewards in Multi-Level Marketing*. Retrieved from <http://arxiv.org/abs/1404.0542>

Reingewertz, Y. (2016). An Economic Model of Multi-Level Marketing. *Ssrn*, (January 2016). <https://doi.org/10.2139/ssrn.2880470>

Representatives, I. (2018). *World Federation Statistical Database (2015-2018)*.

MLM and the impact on distributor's loyalty

Santos, V. B., Spers, V. R. E., & Cremonesi, G. O. G. (2017). The Differences between Multilevel Marketing and the Financial Pyramids or "Pyramid Scheme." *REMark: Revista Brasileira de Marketing*, 16(2), 243–251. <https://doi.org/10.5585/remark.v16i2.3579>

Selladurai, R. (2012). Network Marketing and Supply Chain Management: Here to Stay. *Management*, 2(2), 31–39. <https://doi.org/10.5923/j.mm.20120202.01>

Smith, J. G., & Downtown, H. (n.d.). *The Narcissistic Salesperson: A Framework of Their Relationships with Job Satisfaction, Organizational Commitment, and Customer Orientation*. 6(2), 1–22.

Statista. (2019). *Retail e-commerce sales worldwide from 2014 to 2023*. Retrieved from <https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/>

Steinkopf-frank, B. Y. H. (2019). *Behind the pink curtain*.

STEINKOPF-FRANK, H. (2019). BEHIND THE PINK CURTAIN: THE SOFT SELL OF MULTILEVEL MARKETING. *Bitch Magazine: Feminist Response to Pop Culture*, pp. 64–67. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=a9h&AN=134659120&site=eds-live>

Taylor, J. M. (2000). *When Should an MLM or Network Marketing\* Program Be Considered an Illegal Pyramid Scheme?* 44.

Taylor, J. M. (2012). *THE CASE (FOR AND) AGAINST MULTI-LEVEL MARKETING: The Complete Guide to Understanding the Flaws – and Proving and Countering the Effects – of Endless Chain "Opportunity" Recruitment, or Product-based Pyramid Schemes*. 11–29. Retrieved from <https://www.mlmmwatch.org/01General/taylor.pdf>

Tsay, A. A., Gray, J. V., Noh, I. J., & Mahoney, J. T. (2018). A Review of Production and Operations Management Research on Outsourcing in Supply Chains: Implications for the Theory of the Firm. *Production and Operations Management*, 27(7), 1177–1220. <https://doi.org/10.1111/poms.12855>

Verbeke, W., Dietz, B., & Verwaal, E. (2011). *Drivers of sales performance: a contemporary meta-analysis. Have salespeople become knowledge brokers?* 407–428. <https://doi.org/10.1007/s11747-010-0211-8>

Watson, G. F., Worm, S., Palmatier, R. W., & Ganesan, S. (2015). The Evolution of Marketing Channels: Trends and Research Directions. *Journal of Retailing*, 91(4), 546–568. <https://doi.org/10.1016/j.jretai.2015.04.002>

MLM and the impact on distributor's loyalty

W. Keep, W., & J. Vander Nat, P. (2014). Multilevel marketing and pyramid schemes in the United States. *Journal of Historical Research in Marketing*, 6(2), 188–210. <https://doi.org/10.1108/jhrm-01-2014-0002>

Wikipedia. (2019). List of public corporations by market capitalization. Retrieved from [https://en.wikipedia.org/wiki/List\\_of\\_public\\_corporations\\_by\\_market\\_capitalization#2019](https://en.wikipedia.org/wiki/List_of_public_corporations_by_market_capitalization#2019)

Work, I. (2015). *E P I Briefing Paper Scheduling and Its*.

Yummy - Continente. (2019). Retrieved from [https://www.continente.pt/stores/continente/pt-pt/public/Pages/subcategory.aspx?cat=casa-maquinayammi\(~store\)](https://www.continente.pt/stores/continente/pt-pt/public/Pages/subcategory.aspx?cat=casa-maquinayammi(~store))

Zamil, A. M. (2011). The Impact of Word of Mouth (WOM) on the Purchasing Decision of the Jordanian Consumer. *Research Journal of International Studies*, 20(20), 24–29. <https://doi.org/10.5539/ijbm.v10n4p123>

## 9. Appendices

Questionnaire:

## MLM and the impact on distributor's loyalty

Idade

18 - 35

36 - 50

51 - 65

> 66

Género

Masculino

Feminino

Ocupação profissional

Emprego Full-time (+35h semana)

Emprego Part-time (-35h semana)

Não empregado, à procura de emprego (desempregado)

Não empregado, NÃO procura emprego

Estudante

Rendimento mensal bruto

< 700€ ou < \$2800

700€ - 1200€ ou \$2800 - \$4800

2000€ - 3000€ ou \$8000 - \$12000

> 3000€ ou > \$12000

Qual a sua relação com empresas de Marketing de rede / Marketing Multi Nível / Vendas diretas (Herbalife, Avon, Oriflame, Yves Rocher, Lyconet, etc...)?

Sou distribuidor(a) / marketer / membro independente (Part-time ou Full-time)

Sou distribuidor(a) / marketer / membro independente não ativo(a) / Já fui membro (Part-time ou Full-time)

Sou e sempre fui apenas cliente

Conheço, mas nunca fui cliente ou distribuidor(a)/membro

Não sei / não conheço

## MLM and the impact on distributor's loyalty

Qual o principal motivo que o/a levou a parar a sua atividade como distribuidor(a)/membro?

Deixei de ter tempo suficiente

Não ganhava dinheiro

Mudel de localidade

Alcancei o meu objectivo

Não me revia no trabalho

Outro. Qual?

Qual o principal motivo que o/a levou a tornar-se distribuidor(a)/membro?

Ganhar algum dinheiro extra

Ocupação de tempos livres

Desenvolver algumas competências humanas

Criar uma rede de contactos

Agarrar um boa oportunidade de negócio

Outro. Qual?

Há quanto tempo desenvolve a atividade de distribuidor(a)/membro?

0 - 3 meses

3 - 9 meses

9 meses - 18 meses (ano e meio)

18 meses - 36 meses (3 anos)

3 - 5 anos

> 5 anos



## MLM and the impact on distributor's loyalty

O rendimento da atividade de distribuidor(a), representa aproximadamente que percentagem no total de rendimento mensal?

- 0 - 25%
- 25 - 50%
- 50 - 75%
- 75 - 100%

A empresa em que é distribuidor(a)/membro vende que tipo de produtos ou serviços?

- Saúde
- Cosméticos e cuidado pessoal
- Roupa e acessórios
- Artigo domésticos
- Comida, bebida e produtos nutricionais
- Serviços de telecomunicações, eletricidade e outros "utilities"
- Livros, brinquedos e artigos de escritório
- Serviços financeiros
- Outros

Os distribuidores trabalharão com mais intensidade e terão melhores resultados consoante o VÍNCULO que tiverem com a empresa. VÍNCULO é nada mais que a fidelidade, lealdade e "amor à camiseta" que o distribuidor tem com a empresa.

Qual considera ser o IMPACTO das seguintes no VÍNCULO dos distribuidores com a empresa?

Extremamente negativo  
1 2 3 4 5  
Extremamente positivo

Envolvimento na empresa (ter sobre a marca, conhecer a marca, ter interesse na marca)



Sentimento que o esforço vale a pena



Confiança na empresa



Satisfação do cliente



Investimento em tempo e dinheiro na empresa



## MLM and the impact on distributor's loyalty

A competição dos distribuidores pode ser interna (com outros distribuidores) ou externa (com outras empresas que vendam produtos ou serviços semelhantes).

Maior **COMPETIÇÃO** tem um impacto ... no **ENVOLVIMENTO DO DISTRIBUIDOR**.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior **COMPETIÇÃO** tem um impacto ... no **SENTIMENTO QUE O ESFORÇO VALE A PENA**.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior **COMPETIÇÃO** tem um impacto ... na **CONFIANÇA DO DISTRIBUIDOR NA EMPRESA**.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior **COMPETIÇÃO** tem um impacto ... na **SATISFAÇÃO DO CLIENTE**.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior **COMPETIÇÃO** tem um impacto ... no **INVESTIMENTO EM TEMPO E DINHEIRO NA EMPRESA**.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



## MLM and the impact on distributor's loyalty

Os distribuidores quando vendem um produto ou serviço sabem à partida qual o preço de venda ao público. Isto limita a flexibilidade de preços.

Maior INFLEXIBILIDADE DE PREÇOS tem um impacto ... no ENVOLVIMENTO DO DISTRIBUIDOR.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior INFLEXIBILIDADE DE PREÇOS tem um impacto ... no SENTIMENTO QUE O ESFORÇO É RECOMPENSADO.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior INFLEXIBILIDADE DE PREÇOS tem um impacto ... na CONFIANÇA DO DISTRIBUIDOR NA EMPRESA.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior INFLEXIBILIDADE DE PREÇOS tem um impacto ... na SATISFAÇÃO DO CLIENTE.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior INFLEXIBILIDADE DE PREÇOS tem um impacto ... no INVESTIMENTO EM TEMPO E DINHEIRO NA EMPRESA.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Não ter um ponto de venda ao público é característico da atividade dos distribuidores.

A AUSÊNCIA DE UM PONTO DE VENDA tem um impacto ... no ENVOLVIMENTO DO DISTRIBUIDOR.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



## MLM and the impact on distributor's loyalty

A AUSÊNCIA DE UM PONTO DE VENDA tem um impacto ... no SENTIMENTO QUE O ESFORÇO VALE A PENA.



A AUSÊNCIA DE UM PONTO DE VENDA tem um impacto ... na CONFIANÇA DO DISTRIBUIDOR NA EMPRESA.



A AUSÊNCIA DE UM PONTO DE VENDA tem um impacto ... na SATISFAÇÃO DO CLIENTE.



A AUSÊNCIA DE UM PONTO DE VENDA tem um impacto ... no INVESTIMENTO EM TEMPO E DINHEIRO NA EMPRESA.



A atividade de distribuidor é caracterizada pela elevada flexibilidade, tendo uma baixa retenção de distribuidores na atividade (muita desistência e paragem).

Menor RETENÇÃO DE DISTRIBUIDORES tem um impacto ... no ENVOLVIMENTO DO DISTRIBUIDOR COM A EMPRESA.



Menor RETENÇÃO DE DISTRIBUIDORES tem um impacto ... no SENTIMENTO QUE O ESFORÇO VALE A PENA.



## MLM and the impact on distributor's loyalty

Menor RETENÇÃO DE DISTRIBUIDORES tem um impacto ... na CONFIANÇA DO DISTRIBUIDOR NA EMPRESA.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Menor RETENÇÃO DE DISTRIBUIDORES tem um impacto ... na SATISFAÇÃO DO CLIENTE.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Menor RETENÇÃO DE DISTRIBUIDORES tem um impacto ... no INVESTIMENTO EM TEMPO E DINHEIRO NA EMPRESA.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Existem fatores específico para cada empresa em específico que afetam de diferentes formas os distribuidores, como por exemplo:

- Mudanças operacionais (preços diferentes, novos e eliminação de produtos, etc...)
- Questões legais (esquemas em pirâmide, etc...)
- Perda de estima social por causa da empresa

Maior influência dos FATORES RELACIONADOS COM A EMPRESA têm um impacto ... no ENVOLVIMENTO DO DISTRIBUIDOR COM A EMPRESA.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior influência dos FATORES RELACIONADOS COM A EMPRESA têm um impacto ... no SENTIMENTO QUE O ESFORÇO VALE A PENA.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior influência dos FATORES RELACIONADOS COM A EMPRESA têm um impacto ... na CONFIANÇA DO DISTRIBUIDOR NA EMPRESA.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



## MLM and the impact on distributor's loyalty

Maior influência dos FATORES RELACIONADOS COM A EMPRESA têm um impacto ... na SATISFAÇÃO DO CLIENTE.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Maior influência dos FATORES RELACIONADOS COM A EMPRESA têm um impacto ... no INVESTIMENTO EM TEMPO E DINHEIRO NA EMPRESA.

Extremamente negativo -3 -2 -1 Nem positivo nem negativo 0 1 Extremamente positivo 2 3

Impacto



Ordene de 1 - 5 (sendo 1 o mais importante e 5 o menos) os factores que considera que tenham maior impacto na desistência do distribuidor (redução do VINCULO com a empresa)?

|   |
|---|
| Competição  |
| Baixa flexibilidade na definição de preços  |
| Não ser dono (a) um ponto de venda ao público (não ter uma infraestrutura)                      |
| Baixa retenção de distribuidores e clientes   |
| Factores específicos da empresa (mudanças operacionais, estatuto legal, perda de estima social) |