

The Common Product Traits Among Popular Multi-level Marketing Products

[Marketing]

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Abstract

The rapid growth of multi-level marketing(MLM, also called network marketing) industry in the last decade has made itself an attention-gathering star in the retailing industry. Hoping to reap the merits and benefits of this unique marketing method, more and more companies who marketed their products and services through traditional market channels previously are now testing the possibility of employing the direct selling formula. Nevertheless, influenced by numerous factors, not every product or service has the equal chance for realizing its market potential in the arena of direct selling. With a special focus on the popular direct sales products, this paper is aimed to explore the important product characteristics that are closely related to their market success.

Based on the secondary data, the health/nutritional foods, skin-care/cosmetic products, health equipment and personal/household cleaning products are found to be the most popular direct sales items. Through an in-depth analysis, 11 common product traits, which include (1)easy to explain and demonstrate (2)distinctive uniqueness (3)high-effectiveness (4)multi-function (5)specialized offerings (6)high quality (7)long product life cycle (8)non-technical after sales service (9)high relative price (10)high market familiarity, and (11)re-purchasing nature, are found to be the most dominant product-related factors leading to the popularity of a direct sales product.

1. Introduction

Before Amway, a well-established American multi-level marketing(MLM, also called network marketing) company, started its direct sales operation in Taiwan, the local direct selling industry was mainly marked by many ill-reputed “Rat Club” operators. With the increasing public awareness, devoted efforts made by legitimate direct sales practitioners, and the establishment and implementation of MLM regulations, the once ill-fated industry has finally regained its legitimate position in the retailing industry and has been growing at a rapid speed. It is safe to say that many changes in economic, social, political, and technological climates in a developing society have all contributed to the growth of the direct selling industry. A recent statistics report has shown that the total sales volume of direct selling in Taiwan has reached the level of those in the developed economies. In addition, with the formidable 35% of annual sales growth rate, the multi-level marketing industry is heading its way toward an even greater market dominance.

Multi-level marketing(MLM) is a marketing activity in which a company uses independent sales distributors who bear the responsibilities for selling the products/services, recruiting new members, and are entitled to economic rewards, in building its customer base and expanding market reach. In a market place where many conventional retailing channels facing challenges imposed by the development of modern technologies, the market performance of the MLM industry seemed to be unaffected and has been making envious progress. However, facing with mounting competitive pressure within the industry, issues concerning how to develop the right product mix to meet the needs of the changing consumer tastes and lifestyles has become a hot topic for both MLM practitioners and the retailing industry as a whole.

The success story of the MLM industry in recent years has made many retailers rethink their distribution strategies. As a result, the direct sales marketing method is now been experimenting on products formerly sold on the store shelves of traditional market outlets. Using a distribution network that relies mainly on people, what constitute the top-selling products in terms of their common product traits is an interesting topic worth of studying. To find out the answer, we employed survey data from the Fair Trade Commission(1997), along with information gathered from 14 local MLM companies in our analyses. Before exploring the topic in greater depth, we first focus our attention on the theoretical aspects proposed by marketing researchers.

2. Literature Review

Even though direct selling is still quite a new territory for most marketing pundits, some interested scholars and researchers have provided many valuable opinions concerning what constitutes a successful direct sales product. First, Yu Kuo-Ding (1990) states that not every product can be successfully marketed through the direct selling channel unless it contains the following characteristics:

- (1)Wide Range of Applications and Long Market Life Cycle: Products that have a wide range of applications can often exist in the market place for a long period of time and also stand a good chance for establishing solid market presence. In addition, the products that are not too complex in nature can enjoy a greater degree of public acceptance for attracting potential customers.
- (2)High Product Quality and High Price Level: Since face-to-face selling is the primary way for distributing MLM products, a superior product quality which is closely related to a favorable word-of-mouth reputation is vital for achieving market success. Further, in terms of the price level, with all the expenses associated with

sales commission and special product features, the price of MLM products are generally higher when compared with similar products in the conventional marketing channels.

(3)Special Needs for Services: Due to the unique nature of MLM products, face-to-face communication is often required in explaining the benefits of the offerings as well as encouraging the purchasing behaviors. This requirement for attentive services and customer cares has also become an essential part of MLM business operations.

According to Lui Wu-Ching and Chen Juo-Hsien(1990), criteria such as usefulness of the application, price level, storage requirement, market potentials, and required service level should all be used in judging the suitability of a direct sales product. And by using these criteria, they further concluded products such as concentrated detergents, cosmetic products, health foods and jewelry are among the most suitable items. In addition, they also pointed out the required after-sales-service of MLM products should not involve too much complexity.

Based on the information provided by the Fair Trade Commission, Liu Bang-Dean(1991) discovered two common traits among most MLM products:

(1)Nature of Re-purchasing: Repurchases made by customers are vital for a MLM company's long-term growth. For this reason, efforts made by direct sales distributors to maintain constant contacts with their customers and create a strong loyalty can never be over-emphasized.

(2)Emphases on Differentiation Strategies: Through emphasizing the unique aspects of their offerings, MLM companies can set themselves apart from other competitors in the similar product category and hence obtain a differentiation advantage.

As observed by the editorial department of the Network Marketing Magazine, in developing a successful product strategy, the following considerations concerning product traits should be taken into account:

- (1) Easy to explain and demonstrate
- (2) Nature of re-purchasing
- (3) High market familiarity
- (4) Distinguishable characteristics
- (5) Unique qualities for creating customer loyalty
- (6) Sufficient profit margin

Huang Wei-Che (1993) further pointed out that in addition to the distinct effectiveness and repurchasing nature, a successful direct sales product should also encompass characteristics such as the unavailability of the product in traditional marketing channels, sufficient profit margins, and product features that enhance the convenience of the consumers. To achieve a competitive market advantage, Chuang Cheng-Min (1993) emphasized the R&D efforts of MLM companies for providing their customers with better products and services.

Finally, Fang Liang-Yuan (1995) stressed again the frequent-usage nature of the MLM products and stated the market success will depend not only on unique product traits but also efforts of direct sales people.

3. The Analyses of Common Product Traits of Best-selling MLM Products

3.1 The selection process of best-selling MLM products

When it comes to MLM products, people usually think of health foods, skin-care and cosmetic products. In order to find out the most popular items in the direct selling industry, we consulted the survey results of the Network Marketing Magazine (1995) in

which fourteen international and domestic MLM companies whose products and services cover at least 5 different categories are carefully investigated and analyzed. And based on the categorization set by the Fair Trade Commission(1997), we found that the top four best-selling items among the companies surveyed are: (1)Health and Nutrition Products (35 items) (2)Skin-care and Cosmetic Products(18 items) (3)Personal and Household Cleaning Products(7 items), and (4)Health Equipment and Water Filtering/Purifying Machines(3 items).

In addition, according to the survey conducted by the Fair Trade Commission in 1996 (as shown in Exhibit 1), among all multi-level sales products, the health and nutrition foods had the biggest share of total sales (42.15%), skin-care and cosmetic products the second (16.89%), health equipment the third (14.35%), and personal and household cleaning products the forth (8.33%).

Exhibit 1. Sales Volume by Product Categories

	Items	Sales Volume (Million .NT)	Percentage of Total
1	Health & Nutrition Foods	17,180	42.15
2	Skin-Care & Cosmetic Products	6,883	16.89
3	Health Equipment	5,849	14.35
4	Personal & Household Cleaning	3,394	8.33
5	Water Filtering & Purifying Machine	2,050	5.03
6	Clothing & Apparels	1,379	3.38
7	Service-nature Items	1,231	3.02
8	Bedding Items	1,018	2.50
9	Educational Items	697	1.71
10	Weight Management Products	398	0.98
11	Computer and Peripheral	392	0.96
12	Others	190	0.47
13	Cookware and Cutlery	69	0.23

Source: The 1996 Survey Report on the Network Marketing Business in Taiwan

Considering all the information gathered, we concluded the health & nutrition products, skin-care and cosmetic products, health equipment, and personal and household cleaning products are the four most popular items for the MLM industry. And using the survey conducted by the Network Marketing Magazine as a blueprint, we can further identify direct sales items that fit into the popular product categories among different MLM companies.

3.2 The Common Traits of Best-selling MLM Products

Even though the method of direct selling has nowadays been applied to a wide range of consumer goods in the market place, only a few products have been able to successfully create their brand names distinctively in the minds of the consumer. In order to find out what common product traits constitutes a winning market appeal, we studied the thirteen best-selling items, including health foods, cosmetic products, health equipment, etc., and discovered the following 11 common product traits:

(1)Easy to Explain and Demonstrate: In order to effectively convince the customer the product's characteristics, direct sales people often need to give a thorough benefits-oriented explanation based on their offerings. The product demonstration techniques are especially effective for cleaning, cosmetic products and health equipment.

(2)Distinctive Uniqueness: In promoting MLM products, certain ingredients, recipes, and manufacturing process are often stressed in attracting customers. For example, Forever Co. focuses its promotional efforts on emphasizing the purity of its Aloe products. Taiway International Co., on the other hand, stresses the company's newly-developed "Dry-Freezing" method that transforms the active bacteria into

capsules.

(3)High Effectiveness: The effectiveness of a product always plays the primary function of satisfying customers. Certain product features claiming special purposes can often have a distinctive market appeal. For example, Ching-Kan Tea, marketed by E. Excel International Co., claims to restore the liver functions damaged by long time excessive drinking.

(4)Multi-Function: To broaden their customer bases, MLM companies are gearing up in adding more features to make their offerings more attractive. Compared with products with only limited features, the multi-functional MLM products have a definite advantage in luring customers. Taking Nuskin's skin-cleansing soap as an example, the mild-nature soap can be used for both facial and body cleaning purposes and thus appeal to people of different ages.

(5)Specialized Offerings: Certain special characteristics of the product can often help an MLM company in creating a distinctive brand name image. Examples of specialized product offerings are Double Crane Co.'s fomes japonica products and Forever Co.'s Aloe juice.

(6)High Product Quality: Product quality affects market performance in many critical ways. For one thing, it is inextricably related to the word-of-mouth reputation. With strict quality control in their production processes, most popular direct sales products enjoy the time-proven quality image that forms the solid foundation for their market dominance.

(7)Long Product/Market Life Cycle: Based on the theory of product life cycle(PLC), a product, when introduced to the market, generally goes through several sequential stages, as from introduction, growth, maturity, and finally to decline. Moreover, the

PLC theory upholds that in order to maximize the profit potentials, all marketing strategies should be developed with the consideration of the product's current market position. Examining the best-selling direct sales items, we found that these products all have a long market life cycle and are mostly in their maturity stage which is closely related to their wide public acceptance and stable operating revenues.

(8)Non-Technical After Sales Service: Since most the popular direct sales products are non-durable items, the required after sales service normally does not involve too much technical complexity. To provide their customers with necessary assistance, many MLM companies have set up consulting center for taking care of any concerns or questions their customers may have.

(9)High Relative Price: The relative price reflects the price of a product based on the monetary value of other products in the same category. When compared with the price of similar products in the conventional retailing outlets, the direct sales products are considered to have a high relative price level. Taking Forever Co.'s toothpaste as an example, the listed price of NT\$ 235 is considered affordable. However, when compared with toothpaste of other brands in the market, the price of Forever's toothpaste is considered high because it costs 4 or 5 times the price of other brands.

(10)High Market Familiarity: Most top-selling direct sales products enjoy a high degree of market familiarity. Due to the difficulties and risks of launching a new product that is unfamiliar to the market, most MLM companies concentrate their efforts on marketing products and services that are familiar to the consumer.

(11)Re-Purchasing Nature: Excluding health and fitness equipment, most top-selling

direct sales products have a nature for repurchasing and frequent uses. This is especially obvious for items like cosmetic products, cleaning products and other daily necessities.

3.3 The In-depth Analysis of Product Traits for Best-selling MLM Products

After identifying the 11 common product traits of popular MLM products, we next examine each of them individually to gain a clear insight into their importance.

(1)Easy to Explain and Demonstrate: Directing selling is a business activity with very low entry barriers. Regardless of one's gender, educational background and social status, almost everyone can have an opportunity to play in the arena. For this reason, products that are easy to explain and demonstrate have an advantage for wide market reach. In addition, with adequate training, the newly recruited direct sales person can develop his or her method for marketing the product without too much difficulty.

(2)Distinctive Uniqueness: In the eyes of the consumer, special product features and functions often form a clear distinction between direct marketing products and average retailing goods. Since the MLM products are generally unavailable in the conventional retailing outlets, in promoting their products, MLM companies need to emphasize the unique aspects of their offerings in order to achieve a differentiation advantage. In the real life practice, things like special ingredients, recipes, and manufacturing processes are often emphasized by the competing MLM companies.

(3)High Effectiveness: Without intended effectiveness, every marketing endeavor is destined to fail. To remain competitive, MLM companies should concentrate their efforts on raising their quality and service standards to excel the expectation of their customers. For direct sales people, by using the products themselves, they can

provide their customers with first-hand using experience which would greatly increase the credibility of their claims.

(4)Multi-function: In today's consumer market, products with multiple performance functions are generally perceived by consumers as "getting more values for their money." For direct sales products, adding multiple functions and convenience designs can often attract an even broader range of customers. With increased buying power, consumers nowadays are more willing to bear the extra costs of obtaining products that provide them with great convenience in many different ways.

(5)Focus on Specialized Product Appeals: By associating their company names with certain product features, MLM companies can develop a distinctive brand name image in the minds of their target segments. This strategy can be very effective especially when the market place is over-flown with various kinds of similar offerings. For consumers, buying from a company that is well-known for its professional specialty could significantly reduce their perceived buying risks. For MLM companies, by focusing on what they can do best, they can establish a loyal customer base and therefore sustain a competitive advantage.

(6)High Product Quality: A satisfactory level of product quality has always been the most essential part of a sound word-of-mouth reputation. In the business of direct selling, since the repurchase decision relies mainly on the satisfaction level of the customer, products with below-average quality can often fail many well-intend marketing efforts. Moreover, without employing the advertising strategies of conventional retailing, a favorable or ill word-of-mouth reputation will produce greater impacts on the market performance of the MLM companies.

(7)A Long Product Life Cycle: Products that have a long market life are normally less

vulnerable to the influence of changing economic conditions. Based on studies by Chang Meng-Wei(1995), we found that most of the popular MLM products are in their mature stage and have been enjoying stable market demands for years. Further, with the increasing acceptance of general public, today's MLM distributors can have a better chance in promoting their products and maintaining a steady income.

(8)Non-technical After Sales Service: Because of the not-too-complex nature, the after sales service required for most non-durable MLM products does not involve much technical complexity and is basically consultation-oriented. In addition to the assistance provided by the sales people, many MLM companies have set up service centers where the inquiries and concerns of the customer are attentively handled by trained professionals. Taking the cosmetic surgery service as an example, adequate consultation by well-trained personnel can make the prospective clients feel secure while boosting their confidence. In addition, as the consumers becoming more sophisticated, a well-thought-out after sales service package provided by the MLM company will be as important as the product itself in winning the customer's heart.

(9)High Relative Price: In terms of profit distribution within the marketing channel, the MLM industry is well-known for its high percentage of sales bonus and commission distributed among different levels of the sales hierarchy. This attractive bonus reward system is also one of the reasons that made direct selling business become so popular in recent years. Without bearing various expenses and costs of the conventional marketing channel members, MLM companies share a fair amount of business revenue with their independent distributors. The followings are examples of the difference in cost-structure between an MLM company and a conventional retailing member:

The cost/profit structure for a conventional marketing channel member:

Costs/Profits Distribution (%):

Raw Materials	10
Manufacturing Profits/Costs	12
Advertising/Promotional Costs	15
Profits for Wholesalers	25
Profits for Manufacturer's Rep.	3
<u>Profits for Retailers</u>	<u>35</u>
Total	100%

The cost/profit structure for an MLM company:

Costs/Profits Distribution (%):

Raw Materials	10
Manufacturing Profits/costs	12
Internal Price Discount	15
Retailing Profits for Distributors	35
Sales commission	25
<u>Training Costs</u>	<u>3</u>
Total	100%

Generally speaking, the retailing profits for a conventional marketing channel member and an MLM company is quite similar. But by eliminating the profits distributed to the wholesalers, retailers, and manufacturers' representatives, an MLM company can transfer the saving (63% in the above case) directly to its distributors. Further, if the retailing profits are excluded, the percentage of the total amount of sales commission and bonus an MLM sales person receives can even be higher. Nevertheless, with various costs incurred for adding special product features and maintaining a superior level of product quality and service, the price level of an MLM product can still be higher than that of a similar product in the conventional retailing outlets.

(10)High Market Familiarity: Considering all the risks involved for launching a new

product into an increasingly competitive market place, most MLM companies rather invest their capitals and efforts on developing products that already have a high degree of market familiarity. By doing so, an MLM company can offer products and services that involve the least buying risk for the customers and at the same time maximize its customer reach.

(11)Re-purchasing Nature: The continuous extension of sales networks and re-purchases made by the existing customers form the cornerstone for an MLM company's long-term success. To achieve sustainable growth, certain product attributes that encourage frequent uses have their irreplaceable importance for ensuring a sound market performance as well as customer loyalty.

3.4 The Common Product Traits in Other Categories

Beside the four most popular MLM items, the common product traits also apply to other product categories as shown in the following:

Items	Traits
Water Purifying/filtering Machine	<i>A,B,C,F,I,J</i>
Clothing and Apparels	<i>A,B,C,F,G,H,I,J</i>
Bedding Items	<i>A,B,C,F,I,J</i>
Educational Items	<i>A,C,D,E,F,H,I,J</i>
Weight Management Products	<i>A,B,C,F,H,I,J</i>
Computer and Peripheral	<i>A,B,C,F,G,I,J</i>
Cookware and Cutlery	<i>A,B,C,D,F,I,J</i>
Service-nature Items	<i>A,D,E,F,H,I,J</i>

Traits: (A)Easy to explain and demonstrate (B)Distinctive Uniqueness (C)High Effectiveness (D)Multi-function (E)Focus on Specialized Offerings (F)High Product Quality (G)Long Product Life Circle (H)Non-technical After-service (I)High Relative (J)High Market Familiarity (K)Re-purchasing Nature

4. Conclusion

In the last fifteen years, the MLM industry in Taiwan has successfully established itself as a dominant marketing channel. In their path of developing successful product strategies to accommodate the market demands, many MLM companies have learned the importance of selecting the right product mixes. Through studying the best selling MLM items, we gain a clear view of how the special benefits and convenience of these products traits are valued and appreciated by the consumers. However, facing with the challenges of many newly-developed products and services, how to reinvent themselves in satisfying the needs of tomorrow's customers is a critical task for the industry.

In an attempt to overcome the pitfalls and limitations of the conventional marketing channels, more and more companies are experimenting the possibility of combining their offerings with the direct selling formula. Several consumer products such as credit cards, computer software packages, and health checkups have been put into direct selling practices. Even though it is still too early to define the boundaries of adopting MLM strategies in such a wide sense, it is no doubt that a genuine market focus and service-oriented devotion will always be the most essential piece of a successful product strategy.

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