

POTENTIAL OF EARNINGS IN NETWORK MARKETING AND SOME FACTORS INFLUENCING COMMISSIONS RATES: EVIDENCE FROM BULGARIA

Valentina G. MAKNI

Assistant Professor, Department of International Economic Relations, Faculty of Management,
University of Economics – Varna, Bulgaria
valentina.makni@ue-varna.bg

Abstract

During the last two decades direct selling and its new form known as network marketing (multilevel marketing) illustrate constant growth at a global scale, despite the world economic crisis. According to WFDSA global retail sales in the industry are at amount of 166 billion USD, achieved through 90 million independent salespersons in 2012. In terms of high unemployment and financial instability network marketing deals increasingly as a tool for generating income and employment in the societies. From the 1990s this alternative business model rapidly entered in the lives of people in Central and East European Countries in order to improve their living standards. Direct selling has experienced steady growth in Bulgaria in the last 5 years as the biggest channel of non-store based retailing. The aim of this paper is to provide some evidence for the potential of network marketing in Bulgaria and to explore which factors influence the commission earnings. For this purpose correlation analysis has been used to prove statistical dependencies taking into account the derived L-distribution of representative's income. In socio-demographic features of Bulgarian, direct sellers have been observed whereat descriptive statistics has been conducted.

Keywords: Network Marketing, MLM, Direct Selling, Bulgaria, Earnings, Extra income

JEL classification: M310, J310

Acknowledgement:

This article was created by the implementation of Project SP 73/2012 'Network marketing – the unknown reality' according to agreement on applied and scientific research at the University of Economics – Varna.

1. Introductory Remarks

For a growing number of people, network marketing (MLM) is becoming a popular method for the preparation of incomes as a new form of the well known traditional direct selling. It is a sales approach, distribution method, corporate strategy, business model, entrepreneurship opportunity in which a distribution network from independent salespersons is selling products or services to customers and in this prolonged process they build their own business. The main difference to the traditional direct selling model is that distributors (also called direct sellers) earn commissions not only on their own sales to the customers, but also on the sales of new distributors they recruit and train – their downline. [1] As Choudhary [2] explains, when new distributors continue their recruiting and training efforts a multiplying effect arises, which makes network marketing quite different from traditional direct selling.

American Marketing Association [3] defines that kind of multilevel selling as “(1) a sales approach that involves using company employees at multiple levels in the firm's hierarchy to call on similar levels in the account” and “(2) a strategy used by direct selling companies to have independent agents serve as distributors and resell merchandise to other agents who eventually make sales to customers”.

According to the European Direct Selling Association – SELDIA [4] direct selling industry is the largest provider of independent business opportunities in Europe. Over 4.8 million people are engaged in direct selling in the European Union and over 11 million in whole Europe, out of which 79 % are women. Direct selling companies offer permanent

employment to over 25 000 people in Europe and 76 % of the products they sell are manufactured in the Old Continent.[5] Europe represents 16 % of the global direct selling market. [6] Since 1990s network marketing has rapidly entered in the lives of people from Central and East European Countries (CEECs) as a tool to increase income and living standards.

Euromonitor's survey indicates constant industry growth in Bulgaria in the last five years, where direct selling companies prefer multi-level selling method versus single-level marketing. Value CAGR is likely to reach 3 % over the next 5 years. [7] In 2012 Bulgaria is on the 6th place from EU countries in direct selling industry growth. Direct selling community in Bulgaria amounts to 135 thousand direct sellers [8], which represents 45 % of all people engaged in the retail industry and nearly 5 % of total employment in the country.[9] This data refer only to the seven companies registered in Bulgarian Direct Selling Association – BDSA [10]. They represent a small share of direct selling companies operating in Bulgaria. According to Euromonitor International survey [7] companies with the largest market share are Avon (44 %) и Oriflame (24 %). Network marketing does not have a good image among natives, due to the negative experience of many people from financial fraud schemes in the 1990s. As Coughlan and Grayson [11] emphasize “network marketing carries negative connotations in many marketplaces worldwide. It is often incorrectly associated with deceptive pyramid schemes, which result in a financial ruin for participants.” Another general problem pointed by Keun [12] is that the activity of recruiting people into network marketing is “socially and psychologically unacceptable to most people in the society.” According to Kiaw and Ernest de Run [13] MLM business is “one of the most controversial industries in modern commerce.” Nevertheless, new MLM companies continue to enter Bulgarian market wherefore direct selling community is growing. This trend is comprehensible, taking into account the applied market diversification corporate strategies, growth stage of the industry life cycle in the country and relative low income of the population.

So far direct sales and multilevel marketing in particular, have not been studied in Bulgaria. The state lacks on legislation in this field moreover the whole retail industry is not regulated and still has not been taken measures in this direction. On the background of political lack of interest more Bulgarians have found multilevel marketing as an attractive tool to increase their incomes in terms of flexible conditions of work and independence.

2. Methodology

The actuality of this topic and adduced arguments premise a study among Bulgarian distributors who are involved in multilevel marketing and earn incomes from direct sales. This is originally study in Bulgaria and generally aims to give an idea about socio-demographic profile of Bulgarian direct sellers, and in particular, to determine the commission rate they receive from the network marketing and the factors that influence on it.

A national online questionnaire was conducted among distributors from five international direct selling companies operating in Bulgaria. We have used unordinary selection method of respondents. With the consent and corroboration of the CEOs in the Bulgarian subsidiaries of the companies, a survey was send to their independent representatives in the country. The collection of data occurred in the period between June and August 2013. A total of 279 respondents completed the questionnaire. The approach in the selection of companies and their distributors were based on the following restrictions:

- Respondents were mostly from companies that conduct business over 10 years in Bulgaria. This condition was met for 85% of the respondents.
- Respondents were mostly from companies that have opened offices in the country and have been members of the Bulgarian Direct Selling Association (BDSA). This condition was met for 82% of the respondents.
- Respondents were active distributors and win commissions, i.e. for them network marketing is a source of additional or principal income l. Total 89% see themselves engaged in MLM,
- According to World Federation of Direct Selling Association –WFDSA [14] the predominant product categories in direct sales in Bulgaria are Beauty and personal care (53

%) and Wellness (37 %) which determines the specificity of the responding companies – 92 % of the respondents offer products in these two categories.

Considering specifications of statistical distribution of the investigated variable – direct sellers commission rate - descriptive and correlation analysis were used. The data collected were treated using SPSS 19.0

3. Results and discussion

In terms of gender 83 % of the respondents are women and 17 % are men. Official data shows, that in Bulgaria 86 % of direct selling community are women and 14 % are men [15], i.e. gender ratio of the respondents is very similar to the gender ratio of all Bulgarian direct sellers. These figures confirm the global trend of gender structure in direct selling. Worldwide 75 % of direct sellers are women and 25 % are men in 2012. [15] Bell [16] designates the MLM industry as ‘Pink economy’, in order to provide a flexible business opportunity for women by offering them work-life balance.

In the capital city live 30 % of all respondents, in major city – 49 %, in other town – 18 %, in the village - 3 %. Regional location of direct sellers indicates that direct selling industry encompasses even the least populated places in the country.

Respondents average age is 45 years old (means=45). In the highest percentage (31%) falls range between 25 and 34 years old. The standard deviation ($\sigma= 12$) shows that network marketing attracts mostly people at mature age - between 33 and 57 years old. (Fig. 1)

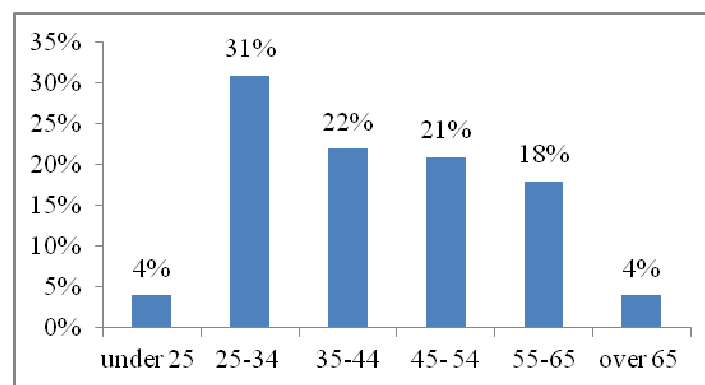


Figure 1: Age of the respondents

Youths and pensioners also earn commissions from direct sales. Bulgaria has the lowest pensions rate as a percentage from GDP in EU [17] and many retirees live below the poverty line. For those, who are engaged in network marketing commissions are particularly valuable source of extra income. Because MLM is a flexible form of employment it allows many young people, including students, to obtain additional resources, for example, during their studies.

Most of the distributors (73 %) have attained tertiary education, 26 % have attained secondary education and only 1 % have completed primary school. The results indicate that high educated people in Bulgaria are interested in direct selling industry.

MLM attracts different kind of people and social groups in the country. The biggest share are employees (34 %). There are small business owners (22 %), investors (10 %), unemployed persons (9 %), retired people (9 %), women in motherhood (4 %), students (4 %) and 3 % are disadvantaged or others. Wider diversification of direct sellers confirms the importance in social distinction of network marketing – no discrimination in terms of age, gender, profession, skills, qualifications, social status – no input requirements and barriers in starting MLM business.

Table 1. Characteristics of direct sellers

Distributors characteristics	%
Active engaged in MLM	89%
Employee	34%
Small business owner	22%
Investor	10%
Retired	9%
Unemployed	9%
Student	4%
In motherhood	4%
Disadvantaged or others	3%

To study the commission rate of respondents initially they were divided into two groups – those with monthly average earnings under 1000 lv.(77 % of the respondents) and those with monthly average earning over 1000 lv. (23 % of the respondents).¹ After compiling data on monthly average commission earnings we found out that they derive L-distribution in lower commission rates (< 1000 lv.) and normal distribution in higher commission rates (> 1000 lv.) Among all respondents, who have specified the size of their commissions - 68 % earn average monthly commission under 600 lv. The largest share of direct sellers (32 %) earn 100 lv. on average, 22 % - 300 lv. and 14 % - 500 lv. (Fig. 2) For these three categories of distributors, network marketing is an efficient tool to increase the household income and useful extra income. Hence, they can cover some of their costs, pay monthly interest on loans or spare for savings. Other 32 % of respondents are equally distributed in five categories levels of commissions – 5 % earn 700 lv. per month on average, 5 % - 900 lv., 6 % - 1500 lv., 4 % - 2500 lv., 4 % - 3500 lv., and 5 % earn above 5000 lv. Hence, for these 32 % of respondents MLM deals as a main source of income. In comparison, in 2013 average gross monthly wage in Bulgaria was 799 lv. [18]

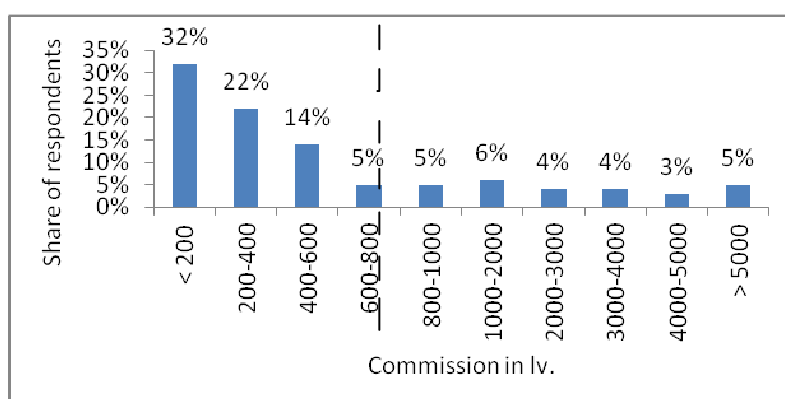


Figure 2. Average monthly commissions of direct sellers*

* Results refer to 248 direct sellers (11% did not provide information on the amount of their commissions.)

¹ Monetary system in Bulgaria is in currency board. Bulgarian currency is fixed to the Euro (1Euro = 1.95583 levs)

As we can see from Tab. 2 one fifth (21 %) of the respondents were unemployed before involving to MLM. At the time of the survey 10% of them earned monthly commissions over 1000 lv., 37% - between 500-1000 lv. and 54% - less than 500 lv.

Table 2. Cross-tabulation between average commissions and the number of unemployed before joining MLM

		Average monthly commissions (lv.)										Total
		100	300	500	700	900	1500	2500	3500	4500	5500	
Number of unemployed before joining MLM	Yes	14	14	11	5	3	2	1	1	0	1	52
	No	64	41	24	6	9	11	9	10	8	12	194
	Total	78	55	35	11	12	13	10	11	8	13	246

The results create implication that network marketing can reduce unemployment among the Bulgarian population. Further more, for a part of the former unemployed it becomes a source of income exceeding the amount of the average salary in the country. About one fifth (22%) of distributors indicate that at the time of the study they did not have any other source of income besides MLM. This indicates that direct sales can be not only additional, but also a major source of income.

4. Size of the network marketing organization (NMO)

In general, as Coughlan and Grayson [11] underline “the commission rate increases as a function of overall group volume.” The larger the network of distributors, the greater is the turnover for the company that generates the network because there are more consumers who consume products and services. Companies pay off to their distributors a percentage of the turnover of each distributor network. Therefore we assume that the commission will increase if distributors attract more distributors (this means more consumers). The larger number of respondents (59%) have developed their NMO, which consists of at least 50 people. From Fig. 3 we can see that 17% have recruited between 50-150 distributors, 5% - 150-250 distributors, 5% - 250-350 distributors, 1% - 350-450 distributors and 14% - more than 450 distributors.

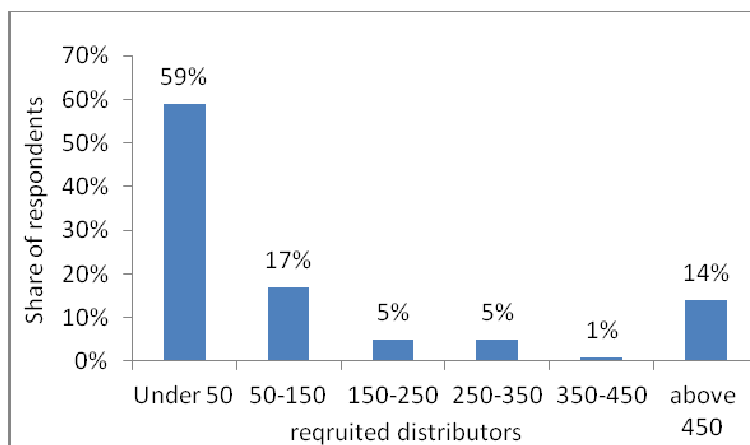


Figure 3. Size of the NMO

We studied the strength of the relationship between the size of the existing network (the number of recruited distributors) and the amount of commissions through correlation analysis. Pearson’s coefficient ($r_b = 0.8$) indicates a strong correlation between the expansion of the network and the commission rate. (See Tab. 5 below) Checking on reliability of the estimated coefficients by statistical hypothesis testing.

The null hypothesis (H_0) states that there is no relationship between the two variables. The alternative hypothesis (H_1) means there is a relationship. Coefficient is significant at the 0.01

level, which is a ground for rejecting the null hypothesis and accepting the alternative hypothesis. Hence, the size of the NMO has a strength influence on commission rate.

5. International network marketing organization

Thirty one percent (31 %) of respondents stated to have their network (NMO) not only in Bulgaria, but also in other countries. As we can see in Tab. 3, there is a growing positive ratio at higher commission rates (over 3500 lv.) between international NMOs to national NMOs. Therefore, higher commissions were received prevailing from distributors with international NMOs.

Table 3. Crosstabulation between commission rate and international NMO

№ of distributors with	Average monthly commissions in leva										Total
	100	300	500	700	900	1500	2500	3500	4500	5500	
NMO in Bulgaria	66	42	26	4	6	7	6	4	1	5	167
International NMO	12	13	9	8	6	6	4	7	7	8	80
Total	78	55	35	12	12	13	10	11	8	13	247

We studied the correlation between the commission rate and establishing network abroad (international NMO). According to Pearson Chi-square test ($\chi^2=43.5$ significant at $\alpha=0.05$) null hypothesis (H_0) is rejected and the alternative hypothesis is accepted (H_1), i.e. establishment of international NMO influences commission rates. Cramer's $V = \phi = 0.42$, which indicates medium relationship.

International NMOs create an important potential for the national economy. Their impact is even more evident, when the corporation is a foreign company. International networks and their turnover are formed outside the national economy, in which the movement of products /services between the company and the end consumers takes place entirely abroad. At the same time it generates cash flow in the form of commissions to Bulgaria, respectively, to the distributor, contributed to the increase in foreign demand for the products. Therefore, the international NMOs formed by Bulgarian distributors, turn on financial transfers to Bulgaria, which can create a multiplier effect in domestic economy.

6. Years involved in MLM

In network marketing there are no requirements regardless of age, gender, education, skills, background or level of finances. [19] In this sense, low entry barriers encourage many people to become direct sellers. [20] According to Neyten and Fogg [21] 'more than 70 000 worldwide join a direct selling business every day'. At the same time exit barriers are also very low, whereas the proportion of the distributors who are leaving business is very high. We assume that with increasing years in the MLM industry, intentions and efforts increase to build a sustainable business that leads to increase of commissions. The results show that 37% of respondents are involved in MLM in less than two years, 25% - 4-6 years, the 22% - over 10 years. We investigate the relationship between the years spent in network marketing and commission rate. In Tab. 5 we can see, that Pearson's correlation is significant at 0.01 level ($r_p=0.6$). This confirms the alternative hypothesis (H_1), hence the duration of the construction business has a significant impact on the commission rate.

7. Time spend on the MLM business per day

Table 4. Hours spent in MLM business

Hours spent in MLM	Share of distributors
0-2 h	62%
2-4 h	21%
4-6 h	9%
6-8 h	8%

We can see in Tab. 4 that most of distributors (62 %) spend below 2 hours per day to build their MLM business (meetings with prospects, sponsoring new distributors, presentations, trainings, etc.) One fifth (21%) spend between 2-4 hours daily in MLM, 9% - between 4-6 hours daily and 8% are engaged in MLM full-time. The correlation analysis shows a significant association between two variables at $\alpha = 0.01$ level. Pearson's correlation ($r_p = 0.4$), indicates moderate relationship between the average time spent per day in MLM business and commission earnings. (Tab. 5)

Table 5. Pearson's correlations

Variables	Pearsons (r_p)	Strength of the relationship
Size of the network	0.831**	strength
Years involved in MLM	0.559**	significant
Time spend in MLM business per day	0.382**	medium

**Correlation is significant at the 0.01 level

* Correlation is significant at the 0.05 level

8. Success in MLM

Distributors were required to evaluate each of the nine factors on a scale of 1-5 in order of importance for success in MLM (1 is the least important and 5 is most important) outlining four factors – 'consistency (never giving up)' - 86% of all respondents gave this factor the highest score. Factor 'Personal motivation and goal setting' was rated highest by 85% of respondents. 'Individual's personality' is referred to as the most important factor by 79% of respondents, and 'activity' (in the form of regular calls and meeting new people) – by 75% of respondents. Exploring the impact of all nine factors on the amount of commissions by Spearman coefficient, we found the following relationships - significant at $\alpha=0.01$ level are the factors 'activity', 'following of a ready-made system', 'consistency' and 'regular participation in company trainings'. Significant at $\alpha=0.05$ level are the factors 'personal motivation and goal setting' and 'regular contact with downlines'. The value of the significant coefficients ($0 < r_s < 0.3$) indicates a weak relationship between the variables and the commission rate. (Tab. 6) An interesting result on factor 'Individual's personality' which is most highly evaluated by the 79% of respondents, but it turns statistically insignificant, i.e. irrelevant to the commission rate. The last two factors – 'permanent contacts with the sponsor' and 'constantly reading and studying of business' are not considered of particular importance by distributors, there is no statistically significant relationship between these variables and commissions.

Table 6. Spearman's rank correlation coefficient

Variables	Spearman coefficient
Activity (regular calls and meeting new prospects)	0.239**
Following of a ready-made system	0.210**
Consistency (never giving up)	0.205**
Regular participation in company trainings	0.196**
Personal motivation and goal setting	0.149*
Regular contact with downlines	0.125*
Regular contact with your sponsor and your upline	0.052
Individual personality	0.050
Constantly reeding and studying of business	0.050

**Correlation is significant at the 0.01 level

* Correlation is significant at the 0.05 level

9. Conclusions

The main findings of our study relate to the potential that create the commissions in network marketing. Descriptive analysis shows that earnings in network marketing are a good source of extra income and for some distributors they are the main source of income. Network marketing creates employment for different social groups of the population. It can redeem unemployment in Bulgaria and generated MLM income is sometimes higher than the average wage in the country (in some cases much higher). In this sense, the state should focus on the socio-economic opportunities offered by the industry.

As a result of the correlation analysis of the factors that were included in the study it was found that for distributor the strongest influence on the commission rate has the size of the existing NMO (number of distributors included) and duration of establishing the business (years of engagement with business). Significant impact on the commissions has the time spent in MLM (hours per day devoted to business). Existence of international NMOs moderately influences the commission rate. We observe weak influence on the commissions of the variables – activity, following of a ready-made system, consistency, regular participation in company trainings, personal motivation and goal setting, regular contacts with downlines.

Future research should be focused on the extension of the studied variables on commissions. It can be added to various demographic and psychological factors affecting commissions as for example incentives for involving to MLM business, personal characteristics, use of the products offered. Attention may be drawn to what extent the factors affecting lower and higher commissions are the same and whether they have equal impact on them. It is interesting to examine how distributors allocate their commissions i.e. how and to what extent diversify the use of earnings from network marketing.

REFERENCES

- [1] Mathews, G., Manalel, J., Zacharias, S. “Network Marketing: Exploitation of Relationships – Myth or Reality”, in International Marketing Conference on Marketing & Society, 8-10 April, 2007, IIMK, pp. 159-163
- [2] Choughary, R. “Multilevel Marketing (MLM) for Socio-economic Development”, in International Journal for Reviews, Surveys and Research, Vol. 2, Issue 1, January 2013
- [3] American Marketing Association:
<https://www.ama.org/resources/Pages/Dictionary.aspx?dLetter=M>
- [4] SELDIA Annual Report 2012-2013: Representing Direct Selling in Europe
http://seldia.eu/sites/default/files/pdf-documents/SELDIA_AR_2013.pdf
- [5] The European Direct Selling Association: <http://seldia.eu/statistics>
- [6] WFDSA, Global Sales and Direct Selling Community – 2012, Published on 6.04.2014
http://wfdsa.org/files/pdf/global-stats/Sales_and_Community_2012.pdf
- [7] Euromonitor International, Direct Selling in Bulgaria, 2013
- [8] European Direct Selling Association: <http://www.seldia.eu/sites/default/files/pdf-documents/2012%20stat%20general%20presentation27062013%20xls.pdf>
- [9] Eurostat: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsi_emp_a&lang=en
- [10] Bulgarian Direct Selling Association: <http://www.bdsa-bg.com/>
- [11] Coughlan, A. and K. Grayson, “Network Marketing Organizations: Compensation Plans, Retail Network Growth and Profitability”, in International Journal of Research in Marketing 15, 1998, pp. 401-426
- [12] Keun, Ng Gek, “Participation in Network Marketing Companies: the motivational factors that influence the part-time distributors in Kuching, Sarawak” University Malaysia Sarawak, 2004

- [13] Kiaw, C. and E. Cyril de Run, “Why Malaysians Join and Stay on in a Multi-level Marketing Company”, in Icfai Journal of Services Marketing, Vol. V, No 4, 2007, pp. 37-52
- [14] WFDSA, Global Sales by Sales Method – 2012, Published 24.06.2013
http://wfdsa.org/files/pdf/global-stats/Sales_Method_2012.pdf
- [15] WFDSA: http://wfdsa.org/files/pdf/global-stats/Sales_Method_2012.pdf
- [16] Bell, A. “The Pink Economy”, in Direct Selling News, published on 1.10.2011
http://directsellingnews.com/index.php/view/in_the_pink/P1#.Uy6Qk6h_sq4
- [17] Eurostat:
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_pens&lang=en
- [18] <http://www.investor.bg/ikonomika-i-politika/332/a/srednata-zaplata-se-e-povishila-s-31-prez-2013-g,166799/>
- [19] Gaddy, D. Network Marketing: A Smart Choice for Today’s Entrepreneur, Community Success Initiative, 2004, available at:
http://communitysuccess.org/sites/default/files/network_marketing.pdf, last accessed on 30 March 2014
- [20] European Direct Selling Association, Promoting the benefits of direct selling: Annual report 2011-2012
- [21] Nuyten, T. and J. Milton Fogg (2012), Your Plan B, third edition, BusinessForHome.org, p. 4