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MULTI-LEVEL MARKETING OF ENTERPRISES – THE WORLD AND POLAND. THEORETICAL PERSPECTIVE

The development of marketing activities of enterprises is manifested in numerous concepts that enable them to gain and maintain a competitive advantage on the market. One of such concepts is multi-level marketing, which is a form of goods distribution, i.e. reaching the customer directly in order to sell products / services to him. An important element of multi-level marketing is that it avoids the classic forms of distribution in the form of wholesalers, shops or salesmen. The aim of the study is to present the importance of multi-level marketing in enterprise management in a market economy. The study is based on a study of the literature of the subject enriching the achievements of management and quality sciences.

Keywords: multi-level marketing.

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БАГАТОРІВНЕВИЙ МАРКЕТИНГ ПІДПРИЄМСТВ – СВІТ І ПОЛЬЩА. ТЕОРЕТИЧНА ПЕРСПЕКТИВА

Розвиток маркетингової діяльності підприємств висвітлений у чисельних концепціях, які дозволяють їм отримати і зберігати конкурентну перевагу на ринку. Однією з таких концепцій є багаторівневий маркетинг, який є своєрідною формою розповсюдження товарів, тобто прямого доступу до клієнта з метою безпосереднього продажу товарів/послуг. Важливим елементом багаторівневого маркетингу є те, що в його рамках намагаються уникнути класичних форм розповсюдження товарів у вигляді оптових продаж, магазинів чи продавців. Мета дослідження: представити значення багаторівневого маркетингу в управлінні підприємством в умовах ринкової економіки. Дослідження ґрунтується на теоретичному аналізі літератури з предмету, що збагачує досягнення менеджменту та наук про якість.

Ключові слова: багаторівневий маркетинг.

1. Introduction

Multi-level marketing is currently one of the methods of introducing products to the market [1; p. 119]. It is a significant vehicle of product management in the first and second decades of the 21st century, thanks to which you can get unlimited financial and personal development opportunities. It functions thanks to the same "natural structure" that gives a person the strength to lead the development of the enterprise. In multi-level marketing, the



principle of "feedback" works in a transparent and legible manner. Success or failure is a direct result of your own actions. The strength of this marketing can be seen in multi-level structures, as we are dealing with a partnership system: "won – won". The aim of the study is to present the problem of the importance of multi-level marketing in enterprise management in a market economy. The study is based on a study of the subject literature and enriches the achievements of management and quality sciences.

2. The essence and importance of multi-level marketing

Multi-level marketing has many names and translations. We can call it: network marketing, multi-level marketing, network marketing [8; pp. 105-123]. Multi-level marketing is a way of operating and managing a company in the conditions of a market economy. D. Failla in his book entitled *A 45-second, life-changing presentation* describes that it is the transfer of a service or product from the producer / manufacturer to the final recipient / customer. The word multi-level refers to the remuneration system through which a product or service is delivered. Multi-level means that remuneration for entrepreneurs operating in an enterprise comes from many levels [5; p. 12].

Defining a multi-level marketing system is widely described in the literature on the subject as [6]:

1) the 1st form of sales in network marketing takes place away from the chain of stores. Direct contact between the distributor and the customer is the key of network marketing. The buyer may choose goods that are attractive to him that are not available in stores,

2) network marketing is a branch of direct selling. The manager has the ability to build his own structures of associates, from whose turnover he gets additional commissions. Who works in network marketing has a choice to whom and how they sell the company's products,

3) multi-level marketing is a way of distributing products or services, which consists in the maximum shortening of the path between the producer of a product and the final recipient, i.e. the customer, and the use of advertising for this through a network of distributors and customers.

In a traditional company, to inform the customer about a product / service, various methods of promotion are used by means of such instruments as: trade fairs, TV, radio, Internet or paper / Internet press [7; pp. 333-355]. It is different in multi-level marketing. In this marketing, information about a product spreads only by human means, a person transmits information to the next. Many sources on multi-level marketing say that this system uses direct sales, but there are theories to the contrary. Opponents of this theory believe that direct sales take place only when the producer of a given product sells the product on his own. The form of product distribution in a multi-level marketing system consists in reaching directly from the seller to the customer. It can be said that this system is derived from direct selling, which is the oldest way of trading, however network marketing has significantly revolutionized this way. All intermediaries, such as wholesalers, distributors, dealers, export agents, are bypassed here. Thanks to this, companies operating in the multi-level marketing system often save quite a bit of money [12].

The concept that companies use in multi-level marketing is relatively simple. The parent company is responsible for product manufacturing, product development, procurement, premises, storage are fixed costs. Entrepreneurs are responsible for ensuring that the information about the product reaches many potential customers. The money that should actually be spent on the marketing of the company goes to the people who build their own business, who care about the company's marketing. An entrepreneur in multi-level marketing does not have to worry about many important factors that an entrepreneur in a traditional organization should worry about.

An important feature when choosing a company in a multi-level marketing system is the product. A product created by corporations should be of the highest quality in order to attract as many customers as possible. Guided by the thought that multi-level marketing is not about canvassing and the product will be sold in small quantities only to family and friends, it is worth paying attention to the fact that the product is clearly, well-consumed (well displayed). Thanks to this, the lack of random buyers is avoided, because family and friends will buy the product again if it wears out after some time and meets their expectations [2; pp. 1643-1662].

3. Multilevel Marketing in the World

In economics or management, you can meet such concepts as the life cycle of a product, commodity or sector. It is taking into the framework of subsequent phases of development of a given thing or activity. The multi-level marketing industry is also subject to this type of strategic analysis and it is called the industry development cycle. Understanding the course of the subsequent phases of the cycle allows you to choose the right moment to join the business. As business continues to evolve and become more and more complex, the life cycle theory has changed over the years. In 1975 we meet for the first time the term of an industrial development cycle outlined by J. Utterback and W. Abernathy. They defined three phases of the product and innovation life: Liquid phase, Transition phase and Specification phase, later referred to as the mature phase.

The beginnings of multi-level marketing date back to around 1940 in the USA. However, it all began with the development of world trade. In the nineteenth century, the first peddlers, itinerant traders and sellers of



small shops appeared. W. Grant was the first to connect many small shops to create one big shop. However, he gave up further activity, forced by the lobbying of traders of small shops. From that moment on, retail chains began to appear and develop more and more often. Some salespeople have started forming the first direct selling organizations. At the end of the 19th century, there were already many businesses that used direct contact with the client [11; pp. 396-430]. In fact, the industry flourished around 1980. One of the first and most famous entrepreneurs was H. J. Heinz, the itinerant salesman who started the organization with more than 400 associates. He distributed a variety of plant products to people who did not grow their own. H. Heinz became famous around the world at the end of the 18th century for the production of tomato sauce called ketchup. The next entrepreneur was A. G. Candler, who purchased a syrup recipe from the pharmacist J. Pemberton in 1886. He distributed this syrup in his restaurants and so created the Coca-Cola concern. In 1868, J. R. Watkins founded J. R. Watkins Medical Company, the largest company in North America to distribute natural remedies directly to consumers. It is the oldest direct selling company operating on the American market to date. It currently employs 25,000 independent distributors and offers nearly 400 products. The invention of the telephone by G. Bell in 1878 enabled interpersonal communication, and thus commercial contacts and the expansion of commercial networks in a larger area. Likewise, G. Marconi, by creating the first radio in the world, helped spread trade and promote it in later times, also via radio. Another example of a retail chain was the California Perfum Company based in New York. Founded in 1890 by D. McConnel. As the company grew, in 1906 it employed approximately 10,000 independent sales representatives distributing 117 different types of products. In 1937, the California Perfum Company changed its name to Avon Products [11; pp. 396-430].

Since 1980, we have been dealing with the development phase of network marketing in the world. It initiated the process of introducing new concepts, structures and methods. A number of new products / services and innovations were introduced. At the end of the twentieth century, the development of computerization and the beginnings of the Internet, gave the economy a new field for action and the flourishing of many forms of online sales. At the end of the 1990s, in the United States of America (USA) as many as 10 million people were involved in direct sales, and most of them were multi-level marketing. Following the example of the United States of America, network marketing has developed in other countries as well. One of the international pioneers was H. Crook, who founded the company Kleeneze Homecare in 1923 in Bristol, Great Britain. In 1969, he introduced an innovative change to the company's operating system. Taking inspiration from Amway, he decided to change the system of one-level direct selling to multi-level marketing [14; pp. 37-44].

However, in Europe, each country adopted network marketing in its own way, which caused markets to expand unevenly. Some very quickly, thanks to which companies achieved significant financial results. Unfortunately, in other markets, companies had to adapt to local regulations and prejudices regarding new forms of business or new entrepreneurs. At the end of the 1990s, every country in Europe had its own network marketing industry and knew how to develop a company in this market. The number of people working in multi-level marketing reached US \$ 5 million, generating profits of over US \$ 12 million in sales turnover. In 2007, the European Direct Selling Association was established in Europe, which was founded on the initiative of national associations from Austria, Belgium, Germany and Switzerland. The network marketing activity has reached Africa and the rest of the world as well. The markets in South America and Israel are very strong. They are thriving in Nigeria. Companies are slowly blazing a trail in the world's less capitalist democracies. The results of the expansion are not systematized anywhere, so it is not yet possible to clearly define the development of the industry in other countries, but the development in Dubai, Morocco or Kenya is slowly being heard [15; pp. 474-510].

4. The beginnings of the development of multi-level marketing in Poland

In Poland, multi-level marketing is an industry that shapes its development. The first companies registered as limited economic companies operating in the multi-level marketing industry date back to the 1990s. During this period, the market quickly adopted trends and new ideas for making money. Many network marketing companies started the expansion of Poland, mainly from Western Europe and the United States of America. Unfortunately, the start was not successful, because people with no knowledge and experience in business started working in the industry. All training attempts turned out to be inappropriate to the Polish mentality and reality. Often, training materials were translated literally, which did not reflect the sense of the business. Additionally, many unethical methods and techniques have had a negative impact on the image of multi-level marketing. People accused of running a Ponzi structure, when discovered in a given country, transferred their illegal systems to other new unconscious markets [13; pp. 1-19]. This was also the case in Poland during the political changes, when financial pyramids were confused with legal systems of multi-level marketing. One of the important events in the multi-level marketing industry is the formation of direct selling associations. In 1978, the World Federation of Direct Selling Associations was established, currently bringing together Direct Selling Associations from 59 different countries, including the Polish Direct Selling Association (PSSB), operating since 1994. Representatives of all member



associations meet annually to discuss the main principles of WFDSA's conduct in promoting direct selling. One of PSSB's significant successes is the adoption of the Direct Selling Code in 1995. This code was modeled on the WFDSA and FEDSA codes. It was in many respects ahead of the later provisions on the protection of consumer rights. It can be concluded that in Poland, multi-level marketing is in the phase of continuous development. There are already many large and experienced companies that have paved the way [10; p. 10]. Among them in the 90s of the twentieth century there were unknown foreign companies as well as recognized pioneers of the market with financial results counted in hundreds of millions of zlotys and a large number of registered distributors. More and more foreign companies are trying to establish themselves in Poland and are expanding their sales networks. However, there are also strong Polish competitors based on Polish capital. These include A.T.W., Colway, and FM Group, which left only the organizational and financial structure of the American systems. Information on multi-level marketing appearing in the Polish media and press contribute to the fact that direct sales and multi-level marketing are becoming an increasingly well-known and popular form of sales. Many companies are beginning to adapt their systems to this product distribution channel, thus increasing the number of people satisfied with this system and the possibility of saving and earning money in Poland [10; p. 10]. In Poland, this number is concentrated around 100. These are mainly Oriflame Poland Sp. z o. o., FM GROUP WORLD Andrzej Trawiński Spółka Komandytowa, Amway Polska Sp. z o. o., FM GROUP POLSKA Artur Trawiński, DSA Financial Group S.A., Vorwerk Polska Sp. z o. o., Akuna Polska Sp. z o. o., Tupperware Polska Sp. z o. o., Mary Kay Cosmetics Poland Sp. z o. o., HERBALIFE Polska Sp. z o. o. and Flavon Group Polska Sp. z o. o.. The offer of these companies includes: cosmetics, perfumes, fashion items, household appliances, nutritional supplements, dietary products, jewelry, financial products, insurance products, compensation, water filters, trips, accessories, underwear, household chemicals, as well as telecommunications services, online stores or language courses [9; p. 34].

5. Multi-level marketing and the functioning of small enterprises

The multi-level marketing system that gives the possibility of running a business has become a concept of running a business. The basic limitation, such as capital for starting your own business in the multi-level marketing system, is eliminated. Entrepreneurs in this marketing do not need to spend a lot of money to start, but they have to spend time building a structure, which requires determination and self-discipline. In this case, the lack of a real boss can be both a disadvantage and an advantage, because no one will say what and how much we have to do on a given day, managers have to set milestones themselves and strive to achieve them. The main features that distinguish multi-level marketing from traditional business are the most frequently mentioned [10; p. 10]:

- 1) relatively low initial capital of the investment;
- 2) working with people who like what they do;
- 3) relatively short path to success;
- 4) a guarantee of success for anyone who really wants to achieve it.

There are many differences between operating in a multi-level marketing system and operating in a traditional enterprise. Nowadays, creating a high-quality product is not a big problem because the most important link is distribution. The term distribution means all activities related to the delivery of a product / service from the producer / producer to the customer. The remaining percentages are expenditure on promotions and the distribution path. You can find that there are a number of differences in network marketing, but a few are related to distribution. The first element in the difference between multi-level marketing distribution and traditional system distribution is a completely different sales organization system. In traditional enterprises, there are a number of intermediaries between the producer and the customer, such as wholesalers, advertising agencies and retail stores. Every day we pass hundreds of billboards encouraging us to buy a given product, i.e. advertising is everywhere. It is becoming more and more difficult to take care of an advertisement that will catch our eye. Famous characters playing in advertisements advertising a given product are hired to attract our attention. In multi-level marketing, each manager is differently called a distributor and he is an advertisement [4; p. 115]. The system of obtaining and sharing profits also differs in the two distinguished ways of making money. Distributors deal with demonstrating products and earning opportunities in a given organization, advertising products and the company, selling products and acquiring new distributors. In this way, managers earn money thanks to the company's marketing plan. Their profits appear in three ways [11; pp. 396-430]. The first way is a fixed margin on the product sold. The second way is a bonus on individual turnover, i.e. after exceeding the sales level set in the marketing plan, the distributor receives a percentage of his sales. The third way that gives the greatest financial opportunities is a bonus on the turnover of the entire structure that has been built by the manager. Each manager can profit from these three ways simultaneously. By using direct sales, distributors in an organization based on network marketing seek and reach customers who buy the company's product / service. This is a completely different method than in traditional enterprises where the consumer is looking for the goods he wants to buy [4; p. 115].



6. Sales in multi-level marketing

Sales in multi-level marketing covers the area of knowledge and competences that concern [3; p. 77]:

- 1) knowledge about the company represented by the distributor, basic principles of operation, goals, strategy, position in a given market segment;
- 2) knowledge of the product offer, recipients, properties, methods of use, application;
- 3) knowledge and competences in selling, persuading, conducting a business conversation, presentation, sales techniques and other commercial competences;
- 4) knowledge and competences related to building own distributor networks, incl. acquiring new distributors and their training, motivating, team building, managing your team and acting as a team manager.

The basic tasks performed by a distributor in multi-level marketing, apart from the sales process, include building their own network of distributors. Then the distributor uses the competences related to building teams, their motivation to act, teaching, controlling and supervising the tasks carried out by individual sellers and by the group. His own level of remuneration depends on his involvement in the work of other people, whom he recruited and persuaded to join his group and sell. Unlike traditional sales, the process of recruiting distributors for multi-level marketing takes place. Practically, the recruitment and selection process used in enterprises does not apply. Sellers encourage every person showing even the slightest willingness to cooperate. It is only during work, learning and supervision that the person is assessed and feedback is provided on how to act, revealing his natural potential and developing skills that are of particular importance in achieving success in sales. Recruitment of new distributors takes place mainly among customers buying products. The distributor evaluates the potential client in terms of his predisposition to work, and then persuades him to start cooperation. It often happens that those who achieved very high compensation levels did not initially show the qualities of a good salesperson according to the marketing plan. It is only after some time that their "hidden talent" is revealed [3; p. 76]. The person who starts the business is looked after by the distributor who invited him to cooperate. Thanks to it, a newly hired person can reveal his potential and awaken some, yet undisclosed abilities. It is the distributor who tells how to dress, behave, and how to deal with problems. Selling in multi-level marketing is about learning by duplicating. The "newly recruited" distributor mimics the distributors from the higher reward levels. This can be done by copying and modeling. The principle that characterizes this sale is that only by helping others can you achieve the success of your network [3; p. 76], and also because each new distributor carefully watches his colleagues and imitates those who are the best. In companies operating on the basis of the principles of multi-level marketing, as in traditional sales, significant management activities concern mainly three areas: training, supervision and motivation. In multi-level marketing, seller training programs have several goals: sellers must know and identify well with the company they work for, be familiar with the products they sell; know customers and competitors, i.e. know the types of customers and their needs, buying motives and habits; know how to conduct an effective commercial presentation; know the scope of responsibilities and operating procedures in the area served – customer acquisition, references, brainstorming techniques, business customization. Training in motivation can also concern internal development, planning as a way to success, perseverance. In multi-level marketing, it is extremely important to know the "marketing plan", which includes the principles of remuneration and action. Task related to supervision, in the case of multi-level marketing, does not define standards for the number of contacts, but is related to encouraging the increase of these numbers by indicating their importance to the level of remuneration; it also applies to the development of patterns of visits to potential customers, as well as supervision of the sales process, including: product knowledge, market research, product presentation, sales psychology, concluding transactions, forms of incentives to buy, the value of the word "no", use of the time allocated for sale. On the other hand, in the process of motivating sellers, it is recognized that the greater the motivation of sellers, the greater their efforts, and the greater their efforts lead to better results, better results to higher remuneration, and this in turn leads to job satisfaction and satisfaction. Greater job satisfaction creates more and more motivation. Sellers working in various forms of sales are motivated by the level of remuneration, development opportunities, and the ability to meet their internal needs. When building a seller's model in direct sales, and in particular in multi-level marketing, special attention should be paid to two-way activities in this form of sales. In addition to selling, distributors / sellers are active in recruiting other people to their own networks and further work with them. The competences resulting from the implementation of this task require them to have and use those features that are closely related, inter alia, to with team building, team management, motivating, exceptional interpersonal competences, coaching, supporting the development of others, leadership. Additionally, activities in direct sales often require distributors to have their own business, and thus to run a business with which is closely related competence regarding, inter alia, entrepreneurship. It should also be emphasized that direct sales are performed outside a stationary place – a store. The point here is that it is the distributor who comes to the customer, and not vice versa, the customer to the store. So he enters the client's territory and is his guest. This



situation can be uncomfortable for the distributor and involve stressful factors, especially when it is refused or even attacked and reluctantly by the customer. Therefore, it seems that the ability to deal with stress should be of particular importance here.

7. Summary

Multi-level marketing is one of the forms of sales that is constantly developing in Poland, other countries of Central and Eastern Europe, Western Europe and the world. Anyone who does not run a business or does not have relatively large financial capital can run a business in multi-level marketing. However, the activity of multi-level marketing is not always well understood and is sometimes confused with financial pyramids. People working in multi-level marketing must work actively, intensively to regain trust among the society and show the better side of this business. Therefore, it is an activity for people who know how to work in a determined, conscientious, organized and self-controlling way. The aim of the study was to present the issue of multi-level marketing, show the stages of development of this industry in the world and indicate the situation of multi-level marketing on the Polish market and compare it with other countries in Europe. There was also basic information about multi-level marketing, from the history of its creation through the facts about multi-level marketing. This study is another contribution to the discussion on the further shape of multi-level marketing in the second decade of the 21st century.

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