

Examining the Embedded Markets of Network Marketing Organizations

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An "embedded market" is one in which economic and social exchange are intermingled (Frenzen & Davis, 1990; Granovetter, 1985). The embeddedness of marketing exchanges has long been recognized (e.g., Bagozzi, 1975) and has recently been given considerable prominence by researchers focusing on relationship marketing (e.g., Dwyer, Schurr, & Oh, 1987; Moorman, Zaltman, & Deshpande, 1992; Morgan & Hunt, 1994). The purpose of this chapter is to highlight the potential research value of a highly embedded marketing strategy called "network marketing," which is sometimes also called "multi-level marketing" or "MLM." Network marketing organizations are likely to foster highly embedded exchange because they build their sales and distribution via the social network of their sales agents.

The chapter is divided into two sections. Because network marketing is not a generally well-known or well-understood marketing strategy, the first portion outlines some of the industry's basic elements, and addresses some of the concerns that are sometimes raised about network marketing. The second portion of the chapter highlights two potential research questions about network marketing, both of which address the ways in which the industry's social aspects may foster or hinder profitability. To develop and support these research issues, exploratory interviews were conducted with 17 net-

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work marketing salespeople in the United Kingdom, paying particular attention to the social network implications of their profession. These interviews were analyzed in light of additional data collected as part of an ongoing study of the network marketing industry, and provide a basis for this chapter's conclusions and recommendations.

A NETWORK MARKETING PRIMER

Network marketing organizations rely almost wholly on independent sales agents to market their products. Thus, these products are rarely (if ever) advertised via mass media or found in retail outlets. Instead, products are promoted, sold, and often personally distributed by individuals whose full- or part-time job is to act as an independent agent for the organization. What makes network marketing sales agents different from other direct-sales agents is that the former are rewarded for playing many more marketing roles than the latter. In particular, a network marketing agent, often called a "distributor," is encouraged to play not only the role of salesperson, but also that of personnel recruiter, sales manager, and end-user. These four roles and the reward structures that support them are outlined next.

Selling Product

Like other direct-selling agents, network marketing distributors are rewarded for selling products to end users. This reward comes in two forms: sales margins and sales commissions. Sales margins are earned when network marketing distributors buy company products at a discount and sell them at a higher retail price. These margins are usually no lower than 20% of wholesale and can be as high as 100% of wholesale. This element of network marketing is similar to the standard arrangement between a retailer and a manufacturer. In addition, network marketing distributors earn a commission on the products they sell. This rate usually begins at about 3% to 5% and increases with volume, sometimes exceeding 30% at the highest volume levels.¹

Recruiting Others to Sell Product

Network marketing distributors are rewarded not only for their own sales, but also for the sales of others whom they have recruited into the network. To understand this portion of the network marketing reward structure, imagine that you are a network marketing distributor and that your friend, Mary, is interested in becoming a distributor as well. If you sponsored Mary as a distributor, then Mary would become part of your "downline." From then on, Mary's sales would increase your earnings in two ways. First, you would earn a commission on Mary's sales, based on a commission rate that would change depending on Mary's sales relative to yours (This rate, however, would rarely fall below 3% to 5%.) Second, your parent company would determine your personal commission rate by combining your sales with Mary's. Because commission rates increase with volume, adding Mary's volume to yours would increase the percentage commission you earn on your own sales. Of course, Mary would also receive commissions according to the same plan, but only on those sales for which she or her downline were responsible.

Managing a Network of Distributors

Your expanding commission potential would not stop with Mary. As a network marketing distributor, you would have the option of sponsoring a number of people in addition to Mary, each of whom would impact your earnings in the same way. And if Mary sponsored a third person, Joe, into the network, then commissions on his sales would be earned not only by him and Mary, but also by you. In fact, most companies would give you commission on up to five or six "levels" below you. Furthermore, the sales volume of all individuals in your downline would be added to your own volume for determination of your commission rate. Thanks to all of these factors, the network marketing compensation system explicitly rewards distributors for using their recruitment, training, and management skills to develop a thriving and growing sales network.

Using the Product

Unlike many other direct-selling agents, network marketing distributors are strongly encouraged to use the product(s) offered by the organization they represent. Because most network marketing products are consumer-targeted repeat-purchase items, members of the salesforce are generally eligible to become loyal product consumers. By developing a growing salesforce of individuals who are also product users, a network marketing company increases its volume as quickly as it increases its distribution range.

Encouragement to use the product comes in three forms: financial, managerial, and psycho-social. Financial encouragement is offered via product discounts and commissions. As mentioned previously, distributors can buy their company's products at a discount, which often means an opportunity to enjoy quality products at a reasonable price. In fact, many individuals first sign up to become distributors solely for this reason—they like the product and would prefer not to pay retail prices for it. Also, because a distributor earns commission on his or her personal purchases, buying product for personal consumption increases that distributor's commission check.

Although sales managers of all kinds advise using products as a way of developing product familiarity (e.g., Ogilvy, 1983, pp. 56-57; Wasserman, 1985, pp. 41-43), this encouragement is stronger in network marketing. Most network marketing managers advise that product usage is the only way to develop the genuine excitement that is necessary for sales success. Carmichael's (1991, p. 65) assertion is a typical reflection of this ethos: "If you use [the product] yourself and can genuinely enthuse about it, you are endowing it with a veritable seal of approval. Your belief will sell the product more effectively than any advertising" (see also Clothier, 1994; Failla, 1984).

Last, as Biggart (1989), Butterfield (1985), and Peven (1968) have documented, network marketing organizations often establish strong social pressures and rewards for distributor consumption of company products. For example, Biggart (1989, pp. 105-120) describes the way in which some network marketing companies equate product usage with patriotism and good parenthood. In sum, these three factors (financial, managerial, and psycho-social) provide a complex set of reasons and encouragements for personal product usage.

The Economic and Legal Viability of Network Marketing

Network marketing companies like Amway Corporation and Shaklee Corporation have each operated prosperously in the United States for over 30 years (Roha, 1991). Amway, with sales of nearly \$5 billion annually, has been among the most aggressive in terms of international expansion, having entered 10 new countries during the 1980s, and having launched in 10 more countries between 1990 and 1994 (Doebale, 1994). Other successful network marketing companies include: Nu Skin International, whose 1994 sales were \$500 million (von Daehne, 1994); Herbalife International, a publicly traded company with 1992 sales of \$405 million (Linden & Stern, 1993); Cabouchon, a U.K.-based jewelry company with \$120 million in sales ("A Good Idea," 1995); and Melaleuca Inc., which has been named five times to *Inc.* magazine's 500 fastest-growing privately owned companies (Inc., 1994). Although network marketing companies have marketed everything from jewelry (Eskin, 1991) to legal insurance (Thompson, 1987), they are probably best known for their successful marketing of health and beauty products.

In the United Kingdom, network marketing accounts for £292 million (\$453 million) annually, which is nearly 31% of total annual direct-selling revenues in that country (Direct Selling Association/U.K. Research Unit, 1995). In the United States, the percentage is much higher, with 70% of annual direct-selling volumes (\$11.6 billion) generated by network marketing (Direct Selling Association/U.S.A., 1995). Despite this economic success, there is a perception among many consumers, practitioners, and researchers that network marketing is, at heart, an illegal business strategy. This is in part because network marketing is often confused with its illegal cousins, such as the pyramid scheme, the chain letter, and the Ponzi scheme (Grafton & Posey, 1990, pp. 599-600). Many of these schemes are illegal because they often do not require the selling of a product, and instead reward individuals for simply signing up others into the network. Even if a product is offered, a scheme can still be illegal if it encourages distributors to develop extensive product inventories, thus generating sales for the company without actual end-user purchases. In addition, a scheme is illegal if it promises unrealistically high incomes to potential distributors.

Such illegal schemes are sometimes confused with network marketing because, like network marketing organizations, these depend on social networks for developing revenue and distribution. Confusion is further enhanced by the fact that, during network marketing's infancy, no useful guidelines had been developed for distinguishing a viable network marketing company from an illegal one. Thus, even some well-intentioned organizations engaged in practices that were later deemed illegal (e.g., rewarding distributors for recruitment alone or encouraging the development of inventories).

Since that time, however, in the United States, the Federal Trade Commission has clarified the distinction between a legal and illegal network business—primarily in decisions rendered for Ger-ro-mar Inc. (1974), Holiday Magic Inc. (1974), and Koscot Interplanetary Inc. (1975). These decisions made explicit the following guidelines for viable network marketing organizations:

- a. Compensation plans should strongly encourage each and every distributor, regardless of level, to personally generate significant retail sales.
- b. Distributors should be protected from overbuying inventory, for example, via recourse to a company buy-back policy.
- c. Distributors should not be compensated for the recruitment of new agents *per se*, but can be compensated for the product sales of these agents and their networks.
- d. Nothing more than a nominal fee should be required for becoming a distributor, and distributors should not be allowed to purchase status at any given network level.
- e. Extraordinary or unrealistic incomes should not be promised.

The history and impact of these legal decisions are more fully explored in Bartlett (1994, pp. 54-63), Griffin (1981), Hines (1988), and Stone and Steiner (1984), and are reflected in guidelines throughout the world (e.g., the U.K. Direct Selling Association's Code of Business Conduct, and Clothier, 1994). Yet, because few people keep abreast of legal and professional developments in the direct-selling industry, most are still not aware of the distinction between a legal and illegal network marketing plan. This is exacerbated by the fact that, still today, network marketing organizations face legal ramifications for alleged violations of the above regulations

(e.g., Behar, 1985; Yamada, 1992). Thus, network marketing organizations are often seen as operating "on the borderline of what is legal and ethical" (Bonoma, 1991).

These legal concerns have helped to foster other negative impressions about the viability of network marketing. One of the most pervasive concerns is that network marketing organizations are prone to exponential growth and will therefore quickly saturate their markets. It is therefore argued that it is easy for those who join early to be successful, and nearly impossible for those who join late. Simple exponential mathematics are often used to support these claims: If 5 distributors sign up 5 friends who in turn recruit 5 more friends, and so on for 10 levels, then this single network would account for more than 12 million people. Furthermore, because the start-up costs for a network marketing organization are much lower than for many other businesses, distributors expand their businesses more quickly than managers of other franchises or start-ups. Last, the growth of a network marketing distribution system is highly decentralized, and this lack of central control will increase the likelihood that the business will expand beyond what is economically justifiable.

These perspectives emphasize the differences between network marketing organizations and other businesses. To put these claims in perspective, however, it is also useful to recognize the similarities. In their summary of legal issues related to network marketing, Grafton and Posey (1990) reflect this spirit:

Nearly every manufacturing firm uses a system of middlemen to distribute its products. A pyramid shape emerges, with the manufacturer on top, supported by an ever-widening group of wholesalers and retailers, with a broad base of consumers at the pyramid's foundation. Multilevel [or network marketing] franchises combine both traditional distribution and direct door-to-door selling techniques. . . . Neither the existence of a large direct sales force nor a market system that forms a pyramid shape indicates that a distribution system is illegal. (pp. 599-600)

In this same vein, it is important to acknowledge that the opportunities inherent in any given business will change as the business becomes more prevalent and successful. Marketing and operating the first McDonald's in a city is much different from managing the 35th. Yet both can be successful.

Second, like other businesses, network marketing organizations are slow to reach a complete saturation point because of the standard market frictions that result from differing human abilities, motivations, and preferences. Even when a network marketing organization is starting out in a market, selling and recruiting is a difficult sales process. For example, network marketing executives estimate that 70% of the adult population is unlikely to become a new recruit and that a majority of the remaining 30% do not aggressively build a network (Coughlan & Grayson, 1994). This same research suggests that time constraints are a major factor in determining success, although differing skill levels certainly also play a role. Personal goals will also influence individual success and overall network growth—many people join network marketing organizations to generate only a moderate amount of part-time income.

Last, although distribution growth in network marketing organizations is indeed decentralized, this does not imply that individual distributors haphazardly or irresponsibly develop their business without regard for market viability. Signing up new recruits is only the first step toward building a successful network and usually nets a distributor little or no income. Having joined a network, a new distributor must be trained and managed to both sell product and recruit new distributors—an activity that consumes between 40% and 50% of a distributor's time (Coughlan & Grayson, 1994). Given these realities of salesforce management, some network marketing managers advise distributors to focus on recruiting and developing a small number (e.g., five) of excellent distributors rather than on signing up any and all takers (Failla, 1984).

NETWORK MARKETING AND SOCIAL NETWORKS

To understand how network marketing sales strategies use social networks, consider the way in which most new distributors are encouraged to build their business. Most new network marketing distributors are encouraged to launch their business by making a list of all the people they know, and to consider everyone on the list to be a potential prospect. "Divide your life into a number of headings," advises Carmichael (1993, p. 41), "Who was I at school with? Who do

I work with? Who do I play sport with? Who do I know from a club, church, political party, and so forth? Who do I know through my marriage or children? Who do I buy goods or services from? Who is the most successful person I know?" Clothier (1994) is even more specific:

Your list will include your ex-boyfriend/girlfriend/husband/wife, the hi-fi dealer, the television repairman, the window cleaner, your children's teachers, the squash club owner, the bank cashier, your doctor, your estate agent, your plumber, your postman, shop assistants whom you see regularly, the man who walks his dog past your house every morning, the garage attendant, the librarian, the publican, your hairdresser, the trading standards officer; in fact, anyone with whom you can conveniently start a conversation. When you add these people to those you "know"—all of your family, friends, relatives, neighbors, and colleagues—and all the people that you "have known," you will have quite a formidable list. If there are less than 100 people on the list it is quite likely that you have not thought hard enough. (p. 91)

Behind this advice is the recognition that existing social relationships often provide an open, and often trusting, environment in which sales topics can be raised as a matter of course. Metaphorically, the distributor's foot is already in the door, thus reducing the potential for initial sales resistance. Broadly speaking, most businesspeople use a similar strategy to build and maintain a client base: Personal and professional contacts provide a network of relationships that both supports and governs the success of industrial salespeople, professional service providers, and entrepreneurs alike (Granovetter, 1985). Network marketing organizations are unique, however, because they bring business concerns into social domains that are generally averse to commercial activity (Biggart, 1989). The remainder of this chapter more fully describes the intermingling of these domains, and highlights two research issues that result.

As mentioned earlier, these research issues are supported by exploratory interviews initiated with 17 network marketing distributors (7 women and 10 men) in the United Kingdom. Three different network marketing companies were represented in this group of informants, all three of which had, at the time of the interviews, an international presence that included both the United Kingdom and the United States. (Although three companies were represented, a

majority of the informants worked for only one of the three.) Nearly half of these informants lived and worked in heavily populated urban areas, while slightly more than half lived and worked in smaller towns and suburban areas. Informants' level of experience with network marketing ranged from just under one year to over 11 years. The informants are identified by their gender and their years of experience as a network marketing distributor. Those with the same gender and years of experience are further distinguished by the letter A, B, or C. Thus, 2 men with 7 years of experience would be identified as (M/A, 7 years) and (M/B, 7 years).

The Intermingling of Contrary Domains

By using social networks for business growth, network marketing challenges the exchange rules that distinguish friendships from professional relationships. Researchers of interpersonal relationships have noted that the benefits associated with more intimate relationships, for example, love and unconditional acceptance, cannot generally be exchanged for the benefits associated with more commercial relationships, for example, money and goods (Argyle & Henderson, 1985; Brinberg & Wood, 1983; Foa & Foa, 1980). Network marketing organizations often challenge these exchange rules by emphasizing the social benefits that come from being part of a network marketing business. As Biggart (1989) observed, relations in network marketing organizations "are not just friendly, but highly personal. Distributors become involved in each other's private lives and often describe themselves as 'family' " (p. 4).

In addition, researchers of domestic social life have highlighted the way in which Westerners draw a clear line between the commercial activities of the public sphere and the personal activities of the private sphere (Barley, 1963; Daunton, 1983; Kent, 1990; Lawrence, 1990; Shorter, 1976). Most network marketing activity, however, occurs in the home—in the United Kingdom, for example, 72% of total sales are accomplished in the home (Direct Selling Association/UK Research Unit, 1995). Thus, network marketing blurs the distinctions between the commercial and the social by bringing commercial activity into a realm in which it is not usually found (Grayson, in press).

The sometimes uneasy balance that network marketers must strike between the personal and the social has been recognized in the

popular press (e.g., Vogel, 1992), and was mentioned by a number of the informants for this project. As one informant explained, after joining a network marketing organization, friends "sort of treat you slightly differently, as though, you know, 'What are you doing?'" (M/B, 3 years). Another informant, who marketed her product by wearing a badge pinned to her clothing every day, found that her friends reacted negatively to her bringing commercial activity into the private domain:

I have some friends who will not go out with me when I wear the badge. . . . And so, it happens that I stopped seeing them. . . . When a friend says to me, "I'm not going out with you with this badge," I say, "Fine, so we're not going out." You know, that's all, because I can tell you I lost some friends, I will put it this way. But it's really, I think it's narrow-mindedness on their behalf. And so, you know, we don't see the same things. So, I may as well not be friends with them. (F/C, 1 year)

These issues and concerns raise questions about the best way to build and manage a network marketing organization. On one hand, social relationships may facilitate the sales and recruitment process, and on the other, these relationships clearly raise sales barriers. This seeming paradox is more fully described in the following two sections. In the first, the question of recruitment is addressed, while the question of network management is addressed in the second.

Growing the Network: Strong Ties or Weak?

The list of potential prospects developed by most new network marketing distributors will contain not only individuals whom the distributor knows very well, but also individuals known only in passing. Knowing the potential benefits and drawbacks of selling to those whom the distributor knows well, this raises the question of whether one type of person is more likely to join than another. Although there will certainly be individual differences, previous research on social networks suggests that general tendencies may also exist. For example, Granovetter's (1973) well-known study of job referrals suggests that new information is more likely to be communicated via weak social ties rather than strong ones. Weak ties tend to link individuals who otherwise travel in different social circles, and who therefore are

likely to have access to different information sources. In contrast, some studies in marketing have shown that more personal information, such as a referral for a professional service, is likely to be transmitted via strong ties (Brown & Reingen, 1987; Reingen & Kernan, 1986). Is network marketing more likely to grow via strong ties or weak?

Informants for this project were divided about whether strong or weak ties were better sales facilitators. Some reported that they depended almost wholly on weak ties for their business. This choice can be explained in part by the simple fact that people generally have more weak ties than strong ones. As one distributor explained,

I would say for the first 2 years, most of the people who got involved with me, I knew either very well or reasonably well. Then, I would say after that—the next sort of 2 or 3 years—I tended to concentrate on strangers, people I didn't know. Because I basically ran out of people I knew. (M/B, 8 years)

This raises the important point that any research comparing the success of strong ties versus weak must take into account that the pool of strong ties is likely to be much smaller than the pool of weak ones.

In addition, several other respondents said that they focused on weak ties because of the social exchange concerns outlined above: It is often socially uncomfortable to raise business issues in a personal setting (Argyle & Henderson, 1985; Brinberg & Wood, 1983; Foa & Foa, 1980). One distributor said that he did not present the business to his closer friends because he was "scared of upsetting friendships" (M, 3 years), and another did not want to seem as if he was trying to "take advantage of close relationships" (M, 9 years). Still another distributor cited "fear of rejection" as a reason for depending more on weak ties than on strong ones: "I think it's a fear of their friends turning round and saying, 'Oh my god, you didn't get involved in one of those deals did you?'" (M, 11 years). This kind of thinking leads to what another informant (F, 5 years) described as a "block" about talking to friends about the business.

Another explanation for reliance on weak ties comes from role theory (Sarbin & Allen, 1968; Solomon, 1983). A role is a set of expectations about a person's behavior, including "that a person be what he claims to be, and that he be appropriately committed and

involved in his role" (Sarbin & Allen, 1968, p. 520). A new distributor's close friends are well aware that a role change has recently taken place, and therefore believe that their friend cannot make a legitimate claim to the new identity (see, e.g., Goffman, 1959, pp. 43-51, 70-76). Thus, friends may be less willing to accept the person in his or her new role: "One week they are an ordinary person and the next week they are a . . . nutritional expert," explained one distributor (M/A, 4 years), "and the person they're trying to impress [wonders] how has this person all of a sudden become a nutritional expert?" In contrast, "if . . . they don't know me from Adam, they take whatever I say as gospel because I'm the expert distributor." Another distributor offered a similar account:

They know me as, you know, [name], and they probably knew me from my previous work maybe. So they see me from a different viewpoint. And suddenly, I'm going to start talking about health and nutrition and business, that issue, it comes as a surprise to them. (M/B, 8 years)

As still another distributor explained, the preconceptions sometimes take years to wear off: "I have had people who are friends come into the business recently. Because they can see, even though I've told them about it years ago, it's only now that they're interested because they've seen the influence that it's had on me" (F, 7 years).

The foregoing comments suggest that the effort and potential social cost associated with selling to friends are too high for distributors, and that successful networks are more likely to grow via weak ties. In contrast with these distributors, however, others reported generating most of their network growth via strong ties, what some network marketers call their "circle of influence." Their explanations for this success run parallel with relationship marketing theory, which emphasizes the importance of trust in developing long-term exchange relationships. "Their center of influence will trust them more than a stranger" said one distributor (F/C, 1 year), whereas another distributor claimed that "you've got more credibility [with people who know you], or they can see more of you, or they know what you're about" (M/B, 3 years).

Ironically, role theory also provides an explanation for the value of strong ties—especially for transformational products like cosmetics, vitamins, and diet aids. If a distributor makes personal claims

about the transformational value of a product or business, then friends know whether or not these claims are true. They can see that the person, who used to lay claim to a particular role, no longer fits the role or plays the part. One distributor explained his success with friends and relatives as follows:

They'd seen me before and after. They'd seen me all sort of listless and fat and then they see me sort of slim and energetic. And the change is quite, sort of remarkable and swift basically. So the proof—there was my inner circle seeing me all the time sort of thing. Whereas people outside it, I suppose, you know, couldn't believe that I had lost the weight in the first place. (M, 2 years)

In sum, these interviews, combined with the research cited, suggest that network marketing organizations offer an interesting arena for testing and extending theories about the value of social ties in the diffusion of products and services. Qualitative evidence suggests that a key question relates to the relative value of strong versus weak ties in network growth.

Managing the Network: Professional or Personal?

A network may grow via strong ties or weak, but it can then be managed in a number of different ways. Informants for this project indicated that network management styles exist on a continuum from personal to professional, and that styles tend to fall toward one or the other extreme.

On the more personal side of the scale, one distributor talked about "becoming good mates" with members of his downline (M/B, 3 years), while another said that her relationship with her sponsor was becoming more like a friendship because they worked together so much (F/C 1 year). "He knows everything about me," said another informant about her distributor (F, 7 years). "He knows *everything* about me. And uh, he's really made it his business to do that." In describing his downline, another respondent said that "We know each other's birthdays, we go to each other's social occasions. . . . This person rings me if she's got a problem, nothing to do with business, so on. So we've gotten to know each other extremely well" (M/B, 8

years). Last, a question about distributor relations drew the following response:

A: Yeah, um, all of the people on my first line have become friends. They're not just my distributors.

Q: What's the distinction?

A: Well, I just I think it depends on the amount of time you spend with someone. I mean, if it's just someone who's on the end of a phone, and you don't get to see them very often, then you might look at them as someone who is just putting a few pounds in your bank account every month. I don't look at it like that. When I sign someone up, I mean, I look to see how I can get them to put money in their bank account, not how they can put money in my bank account. (M, 11 years)

This finding is not entirely surprising, given the accounts of authors such as Biggart (1989), who is cited earlier as comparing network marketing relationships with family relationships. What was slightly more surprising was the number of informants who contrasted themselves with this style, and instead described their management approach as more professional. "I think some people do get much closer socially, than perhaps I do" said one distributor (M/A, 4 years). "I tend to be warm but professional . . . I don't think that I'm, perhaps, as close as some people are." Another (M, 3 years) offered the following observation:

I think friendships, you can probably leave a lot of that out. I would say, for the most part, friendships don't occur. I would say it's good acquaintances and sociable acquaintances. Friendships are the bonus.

Part of the reason for keeping network relationships more professional than social is that good salesforce management is not always kind and gentle. One respondent (M/B, 3 years) described his sponsor's management style as the following:

It was good because it was very professional. Uh, at times it, it was a bit—you know, I found it a bit bullying. But, just that was my own viewpoint. Just do this and you gotta do that. But, uh, he was right (laughs). I need to do things, more things. It doesn't come if you sit on your bum does it?

In another case, this more professional approach was viewed as a way of keeping network marketing from dominating one's social life. "There are people in network marketing who probably hardly have friends out of the network," explained one informant (F, 5 years). "I would not allow that to happen in my life."

Building in part from the issues highlighted in the previous section, this section raises a further question about the best approach to managing a network. A partial answer to this question comes from a study by Frenzen and Davis (1990) on the embeddedness of party-plan sales.² Their research supported a model in which stronger social ties were correlated with greater likelihood of *purchase*, but not with greater purchase *quantity*. In other words the social obligation associated with friendship seemed to require a purchase of some sort, but not necessarily the spending of a lot of money. This finding suggests that networks reflecting a generally more personal management style may have more frequent purchases, but not necessarily purchases of greater quantity. Here again, these comments and findings raise some interesting theoretical and managerial questions.

CONCLUDING SUMMARY

The purpose of this chapter was to both outline the basics of the network marketing industry and to highlight some of its elements as valuable for marketing researchers, particularly those interested in the ways in which social networks and marketing management work together. Network marketing sales agents were contrasted with other sales agents because of the multiple roles that they are expected to play, and for which they are rewarded. These distributors are expected not only to sell, but also to recruit other distributors, manage a network, and consume products themselves. Concerns about the economic and legal viability of network marketing were also raised, along with some information that puts these concerns into better perspective.

Network marketing is a strategy in which social and marketing goals and rewards intermingle, and Westerners are sometimes uncomfortable when commercial and social realms overlap. This notion was explored using previous research along with exploratory interviews with distributors. Two clear perspectives emerged: that social

relationships facilitate the success of network marketing organizations but at the same time hamper that success. Although it is certainly possible that both perspectives are correct to some degree, it would be valuable both theoretically and managerially to study which factor (if any) has a more powerful influence on network marketing organizations. Findings in this regard would not only shed light on the ways in which commercial and personal exchange can (or cannot) work together, but also on the ways in which network marketing organizations might best be managed.

NOTES

1. Descriptions of compensation plans throughout this chapter are based on a review of several industry compensation plans, as well as the results of a network marketing study implemented by Coughlan and Grayson (1994).

2. A party-plan system is similar to network marketing because it uses social networks and is centered in and around the home. Party plans do not, however, usually encourage or reward their sales agents for recruiting and managing their own salesforces, and do not offer multilevel commissions.