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NETWORK MARKETING

– consumer perception and commission structure

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Network marketing, also called multilevel marketing is a field of direct selling. The major difference between network marketing and direct selling is the possibility to grow a personal sales organization.

This study discusses the awareness of multi-level marketing companies in Finland, differences between MLMs and pyramid schemes, the most recognized MLM companies in Finland, the overall image of MLM businesses among the consumers, convincing on new members to join in the MLM business and to examine how the commission is structured.

The literature review studies the history and present of network marketing on international level and in Finland, compensation plans, ponzi and pyramid schemes, differences and characteristics between legal MLMs and pyramid schemes and marketing of the products and business opportunities.

Quantitative method was used to collect the data. An anonymous online survey was implemented and shared on multiple social media channels.

Research findings presented that the consumers overall perception of network marketing was negative because of feeling of being under pressure and empty promises. Majority of the respondents had ordered products from network marketing companies and the user experiences of the products had been positive.

Some of the respondents had been working as sales representatives in network marketing companies but none of them had network marketing as their primary source of income.

KEYWORDS:

Network marketing, direct sales, marketing

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LIST OF ABBREVIATIONS

MLM	Multilevel marketing
FTC	Federal Trade Commission
DSA	Direct Selling Association
DSN	Direct Selling News
DMA Finland	Data & Marketing Association of Finland

1 INTRODUCTION

Direct selling is a broad industry that includes telemarketing, door-to-door marketing, party plans and numerous other business models. Network marketing, also called multilevel marketing (MLM) is a field of direct selling as well. The major difference between direct selling and MLM is the possibility to grow a personal sales organization. (Porema, 2016)

There are numerous MLM companies worldwide and some of them are also present in Finland. In this business model, independent representatives sell the products of the company to other consumers and recruit new resellers. The representatives earn provision also from the turnover made by the resellers they have recruited. In other words, the structure of the business model consists of multiple levels and the higher level the seller is on, the more they will earn. These characteristics seem to recur in every MLM, and they also seem to have characteristics of being pyramid schemes, which are stated to be illegal in Finland and generally on the international level. (Finnish Competition and Consumer Authority, 2014)

The idea of being your own employer is sold to the target people with promises of financial independence and limitless free time. In addition, selling of the products is told to be simple and effortless, because the products are extremely desirable. The first time I heard about network marketing was when a former classmate contacted me and told me about this new business opportunity. The pitch left me with questions - why would a person I have not been in contact for years contact me and offer me this business opportunity and if these products are as exceptional as claimed, wouldn't it be more lucrative to sell them in stores, available for everybody. I did not accept the offer but was left with an indelible impression for the phenomenon.

In past years the topic has been on headlines starting from the scandal around supplements selling network marketing scheme, FitLine, which sales representatives were marketing the products in Social Media with prohibited health claims and sales pitches containing promises of financial freedom and friendship. (Varpula, 2019b)

The purpose of the thesis is to objectively study the awareness of multi-level marketing companies in Finland and to find out the differences between MLMs and pyramid schemes.

Other questions the thesis will explore are:

1. What are the most recognized MLM companies in Finland
2. What is the overall image of MLM businesses among the consumers
3. How new members are convinced to join in MLM business
4. To examine how the commission is structured

2 NETWORK MARKETING – THE PAST AND PRESENT

2.1 History

The history of network marketing dates over 120 years back in time, in late 1800's when in New York, 1890, David McConnel founded the California Perfume Company. By 1906 the company had 117 different products in their selection and had more than 9000 sales representatives. In 1937 the company changed its name to Avon Products which is these days one of the most known network marketing companies. Few decades later, in 1905, Alfred C. Fuller started the Fuller Brush Company and hired 270 sellers in United States. The salary of the sellers was based only on commission and in 1919 the company had made 1 000 000 dollars in sales. (Isaac, 2014.)

In 1931 the former vice president of Fuller Brush Company, Frank Stanley Beveridge and Catherine L. O'Brien predicted a business opportunity for people to start their own business with minimal investment. This led to founding of Stanley Home Products which core idea was to sell products that people use every day. Some sales representatives realized that the way to maximise the sales volume was to give demonstrations for groups of people, such as clubs and organizations instead for individuals and refined the idea by encouraging individual people to invite friends, colleagues and family members over and that led in the rise of "party plan". Leading people of well-known network marketing companies, including Mary Kay Ash, the founder of Mary Kay Cosmetics and Brownie Wise, the vice president of Tupperware have received training as Stanley Home Products sellers in the early years. (Isaac, 2014.) Even if Stanley Home Products is not as famous as its rivals, it certainly has an important role in a history of network marketing.

In 1934 Carl Rehnborg founded the vitamin supplement selling California Vitamin Corporation which later changed its name to Nutrilite Products Company, Inc. Nutrilite business plan was the first documented network marketing (MLM) compensation plan. Besides of selling more products, this MLM business model motivated the sales personnel to train the members of their sales organization to increase the sales. (Isaac, 2014.)

In 1945 Earl Tupper, the creator of multi-functioning plastic container line united his business idea with the presentation skills of Brownie Wise from Stanley Home Products to launch up the Tupperware Party Plan, which is today operating in more than 40

countries worldwide. In 1949 Nutrilite representatives Rich DeVos and Jay Van Andel founded the Amway Corporation, which later also acquired Nutrilite. (Isaac, 2014.)

In 1970's the Federal Trade Commission (FTC) and state agencies across United States began show interest on MLM companies and in 1975 the FTC filed suit against Amway, claiming it of being an illegal pyramid scheme. The following year Amway used millions of dollars to fix up its reputation and as a result FTC rejected the lawsuit stating Amway, as well as stating that network marketing is a legal and efficient distribution system, which led to the rocketing of MLM industry. (Isaac, 2014.) Today the Direct Selling Association (DSA) has around 200 members listed but the estimation is that there were over 1000 MLM companies in US alone and possibly more than 3000 companies worldwide in the beginning of 21st century (Ziglar and Hayes, 2001).

The Direct Selling News (DSN) publishes annually The Global 100 list that lists 100 largest direct selling companies worldwide based on their annual revenue in US dollars. The data is mostly compiled from private held companies but also public records and documents are used for publicly traded companies. Top 5 companies of 2020, based on 2019 revenue were Amway \$ 8,40B, Herbalife Nutrition \$ 4,90B, Avon \$ 4,76B, Vorwerk \$ 4,23B and Natura \$ 3,66B. (DSN, 2020.)

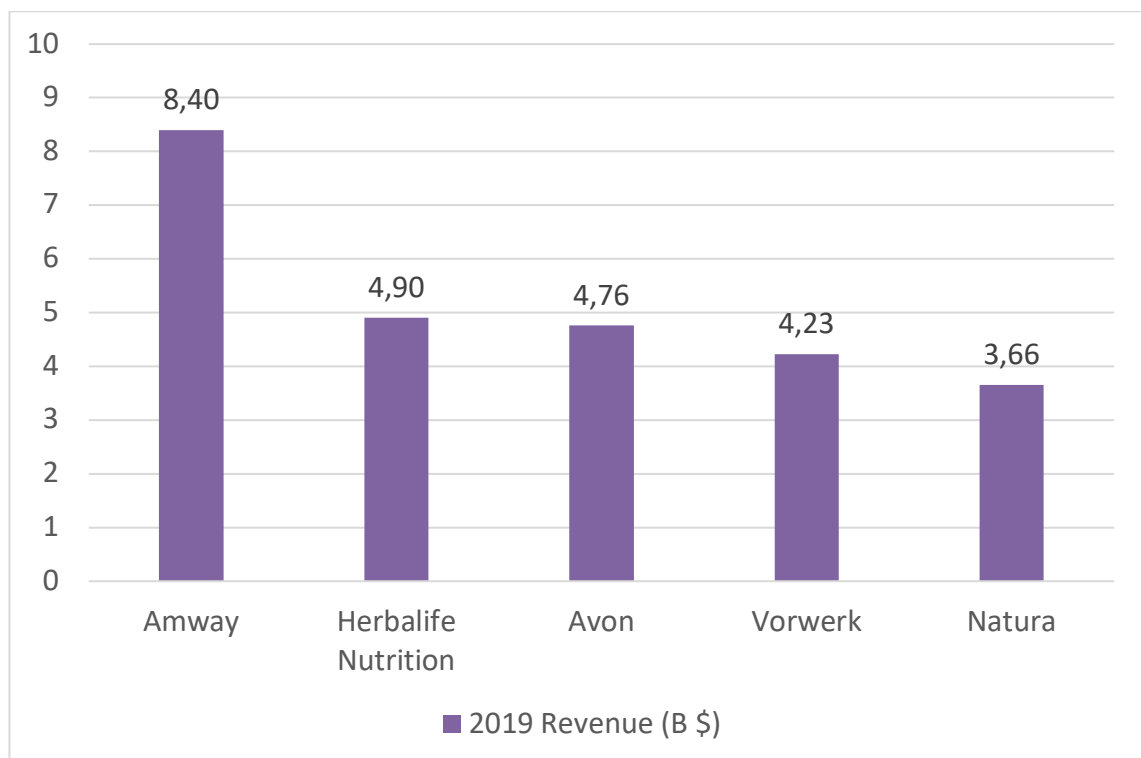


Figure 1. Year 2019 revenue of top 5 companies (DSN, 2020)

2.2 Network marketing in Finland

The beginning of network marketing in Finland took place in early 1960's when Elisabeth Rehn first imported Tupperware and launched the network sales by using the American sales model, party plan (Perälä, 2010). From 1990's to date, various forms of network marketing arrived in Finland with United Feelings, shortly followed by large MLM companies Herbalife and Golden Products (later GNLD) (Rämö, 2005). United Feelings has later disappeared, but the two others are fully operating.

In 2018 in Finland the largest categories were:

- Wellness (47 %)
- Cosmetics and hygiene products (32 %)
- Household goods, such as candles, tableware and vacuum cleaners (14 %)

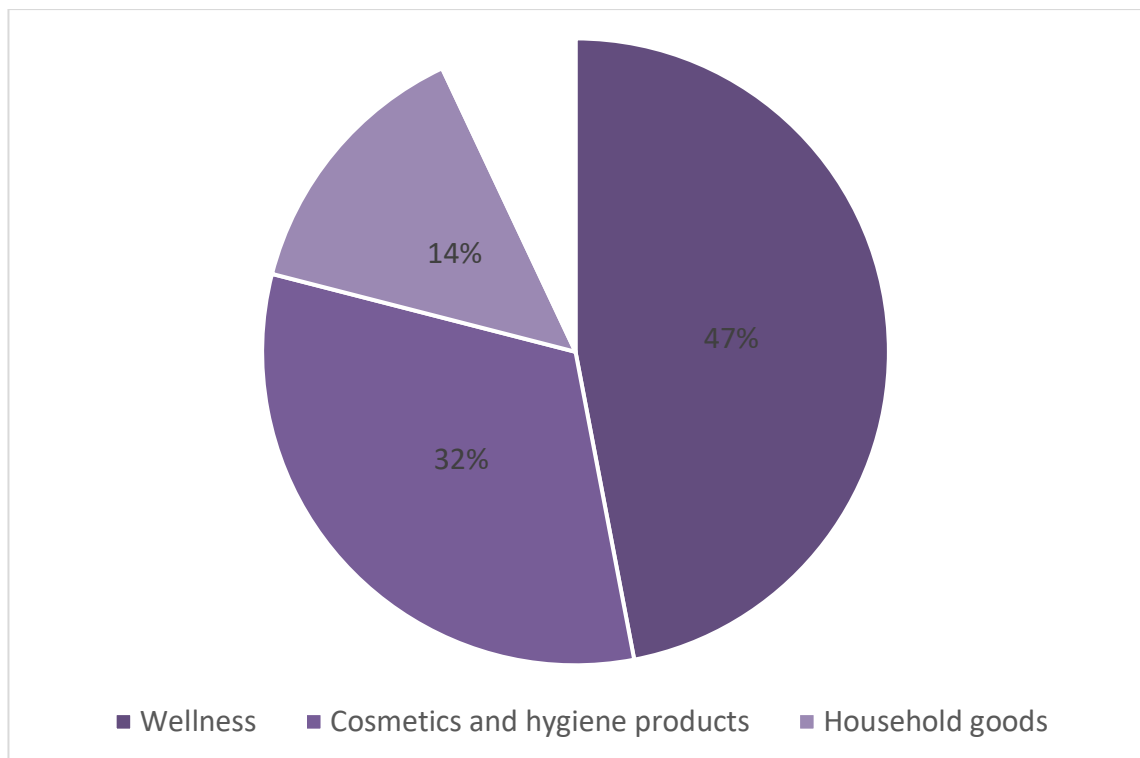


Figure 2. Largest product categories in Finland (DMA Finland, 2018)

In the beginning of 2018, 75 890 people were working in network marketing, as their main or additional income source. For 10 % of the sales representatives, it is a full-time job while some keep it as a hobby or a part time job. The share of women of the sales representatives was 85 %. (DMA Finland, 2018)

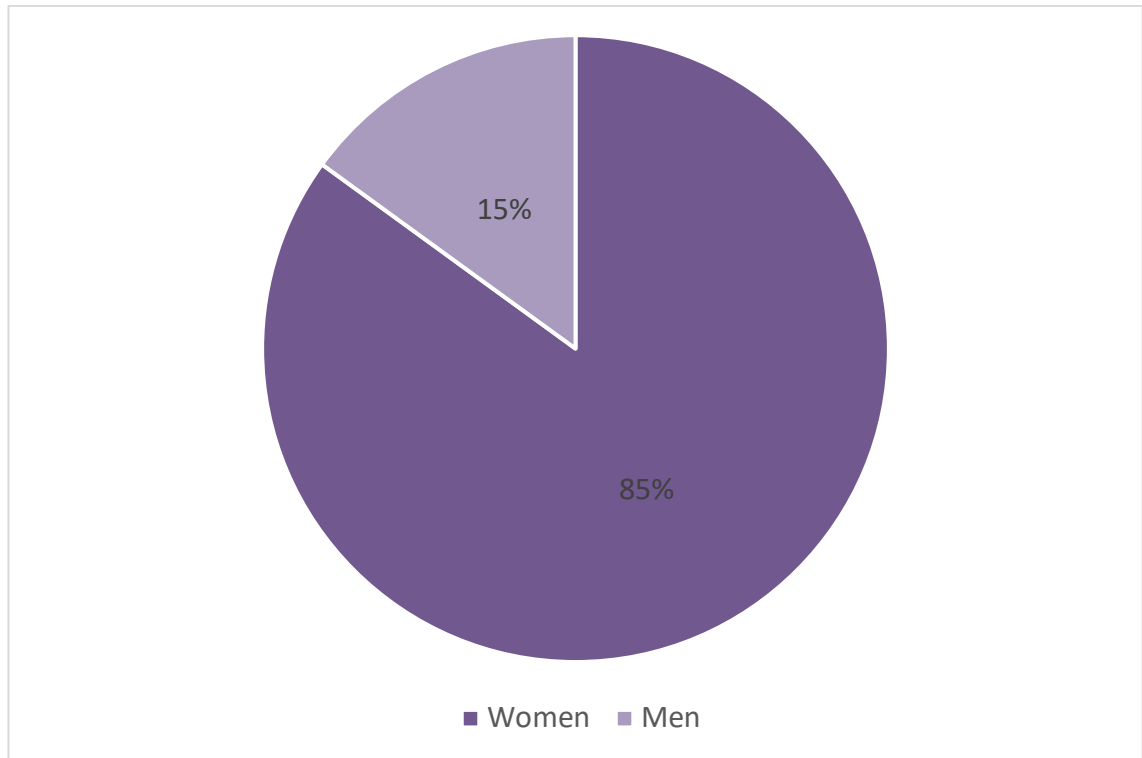


Figure 3. Gender distribution of sales representatives (DMA Finland, 2018)

In 2018 the sales of direct selling companies in Finland were 151 million euros. (DMA Finland, 2018)

2.3 Compensation plans

The MLM model enhance the role of entrepreneurship. With hierarchical rewarding system the parent company passes the responsibility of recruiting and training of new members on the existing sales personnel. The salespeople are paid commission on their personal sales and are motivated to be independent agents and to build their own downline of sales representatives. (Vander Nat and Keep, 2002)

Although most of the MLM companies divide approximately the same percentage of total sales to pay the salespeople, their compensation plan structures vary slightly. Some companies pay a commission percentage based on the sales of the people the representative has recruited while other require that the representative meets his monthly sales targets.

There are four compensation plans that are the most used and together make up 98 % of all the existing plans (Christensen and Christensen, 2007). These are

1. Breakaway
2. Unilevel
3. Forced matrix
4. Binary

The following chapter discusses the differences and characteristics of the above compensation methods.

2.3.1 Breakaway

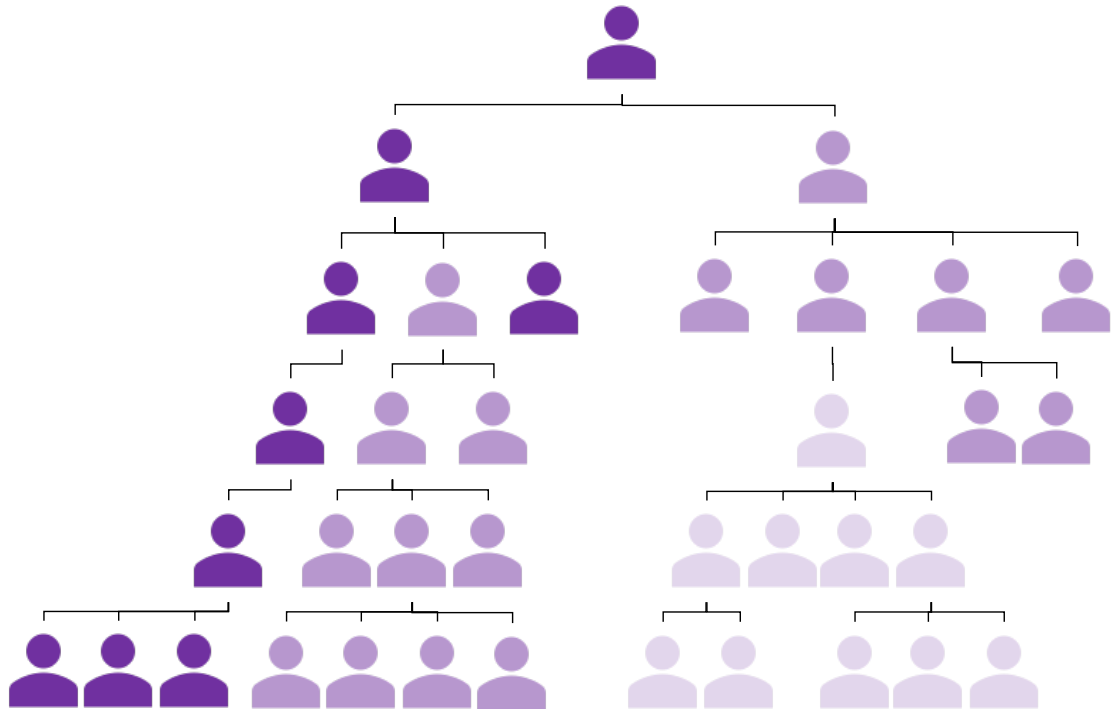
Breakaway is the earliest plan invented and it is used by 62 % of the companies (Christensen and Christensen, 2007) including the international companies Amway and Mary Kay.

Under this plan, there are no limits on how many people can be recruited or on how many people the seller can have on the first level of their top line. The new recruits form a new line and the people they recruit will become a second level, third level and so on. The seller earns a commission of his top line and people they recruit. To earn the commission, the seller has to meet a monthly personal and a group target. The seller climbs steps to reach the next level where he is eligible for higher commission percentage. The seller earns the commission on his groups as long as he stays ahead of them by having a higher rank himself. The breakaway means that when a downline member reaches a certain level, they will break away from their leader causing the leader to earn less money on the created volume. The more first-level recruits the seller has, the stronger his business is, because in case one of his recruits quit, he has the other ones to keep up the business. (Christensen and Christensen, 2007)

Advantages and disadvantages

The advantages of Breakaway plan are that it is very sales-centric and great for rewarding customer sales. As it is the earliest invented compensation plan and used by the leading companies, it is proven to be functional. The disadvantages of the plan are that a leader that trains a downline distributor to break away from his group can lose a source of income when the commission from the new groups volume is lost. Due to this, it can be difficult to maintain a steady income level.

Picture 1 shows an example of sales organization in MLM that uses Breakaway compensation plan. Each group shown with same colour indicates a breakaway group. The leader at the top of the hierarchical diagram has a downline of 35 members but only eight of them are included in his own breakaway group.



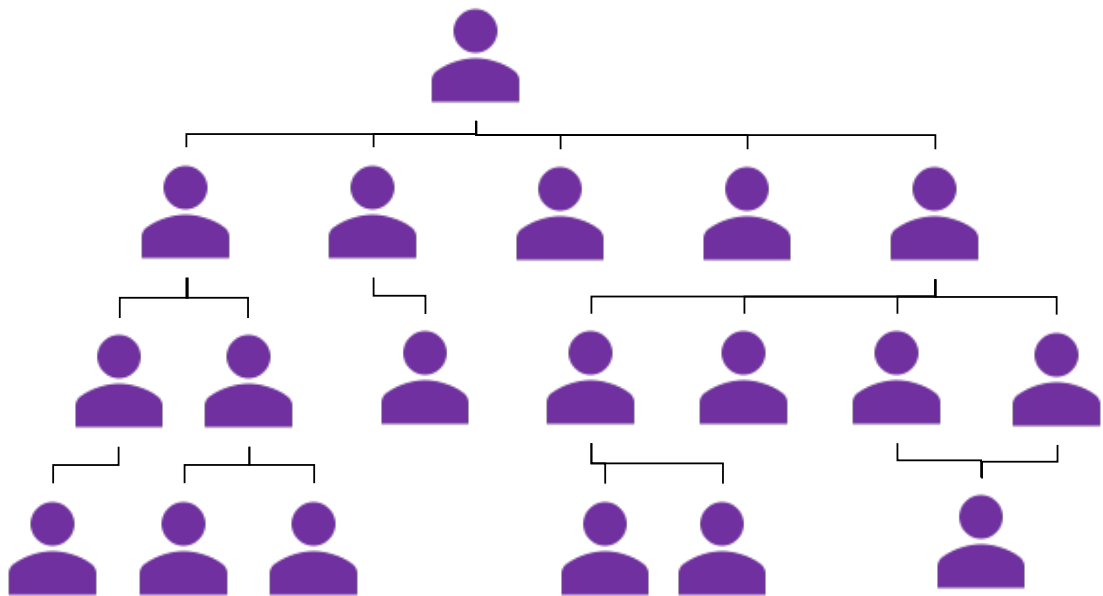
Picture 1. Breakaway plan (Rawlins, 2020b)

2.3.2 Unilevel

Hybrid Unilevel, also known as Unigen plans are used by 18 % of the MLM companies (Christensen and Christensen, 2007). PM International and Nu Skin use the Unilevel compensation plan. The plan pays commission on personal and breakaway groups. The representatives recruit their own customers that are usually known as Associates or Members. The Associates get wholesale buying advantages and are able to order directly from the company. The purchases are mostly for their own use, but a part of the associates have some customers. The earned commission on recruits is usually higher than with other plans (Christensen and Christensen, 2007).

Advantages and disadvantages

The advantages of Unilevel are that the members are able to build a strategy by growing their organization both deep and wide. The more levels the organization has, the higher the rank of the member is and the more potential there is for higher earnings. However, having more members on each level maximizes the opportunity to larger number of sales and commissions. One of the greatest disadvantages of unilevel plan is stacking, a dishonest way for a distributor to create levels between herself and the real recruits using false or co-conspiring members. The earned commission increases when the distributor gains a share of the false levels. Stacking is also harmful to the distributors upline pushing them too far away from the real sales to gain any profit. In Unilevel compensation model it is difficult for beginners to make substantial income. To succeed, the newcomer needs to have advanced skills in recruiting new members and sponsor several distributors. Picture 2 shows an example of sales organization in MLM that uses Unilevel compensation plan.



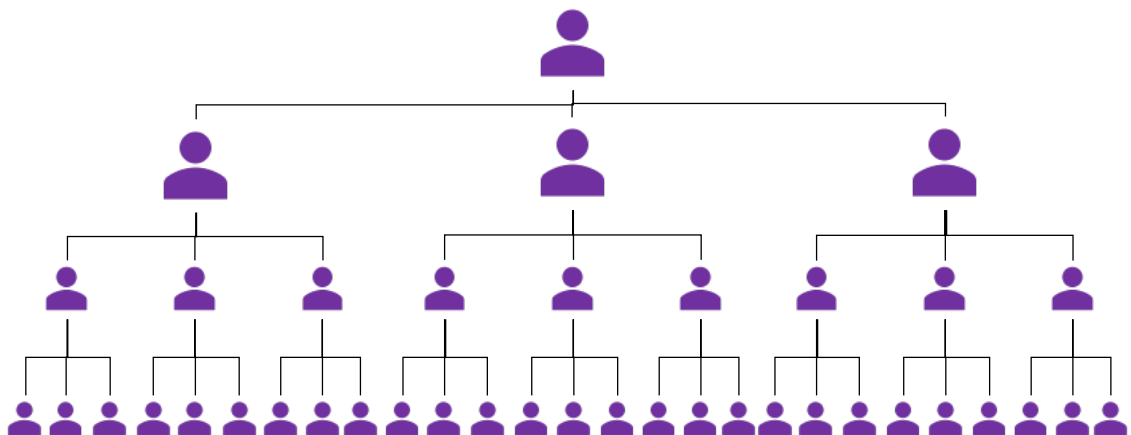
Picture 2. Unilevel plan (Rawlins, 2020c)

2.3.3 Forced Matrix

Forced Matrix plan is used by 12 % of the MLM companies and an example of company using this compensation model is Melaleuca. The plan is similar than the Unilevel plan, but it has a limit on the number of people that the seller can personally recruit as his top line (also known as a limited matrix). The recruits form the second level on the line below the seller and their recruits form the third level. The number of downline levels is also limited. Any people the seller recruits over his limits will drop a level (also known as spillover) (Christensen and Christensen, 2007 p. 29).

Advantages and disadvantages

Spillover is the major advantage of the plan. When members are recruiting new people over their limits, it will not only grow their downline but helps their referrals to grow their downline. Forced Matrix plan grows fast and enables newcomers to earn commission sooner. Limited number of levels on which the member is paid is a disadvantage of Forced matrix, as well as that the positions of the recruited members cannot be changed, which can cause inconvenience when the number of members is limited. As it can be seen from Picture 3 below, that shows an example of Forced matrix sales organization, the number of members grows exponentially making it impossible for this type of compensation plan to grow more than few levels in practice.



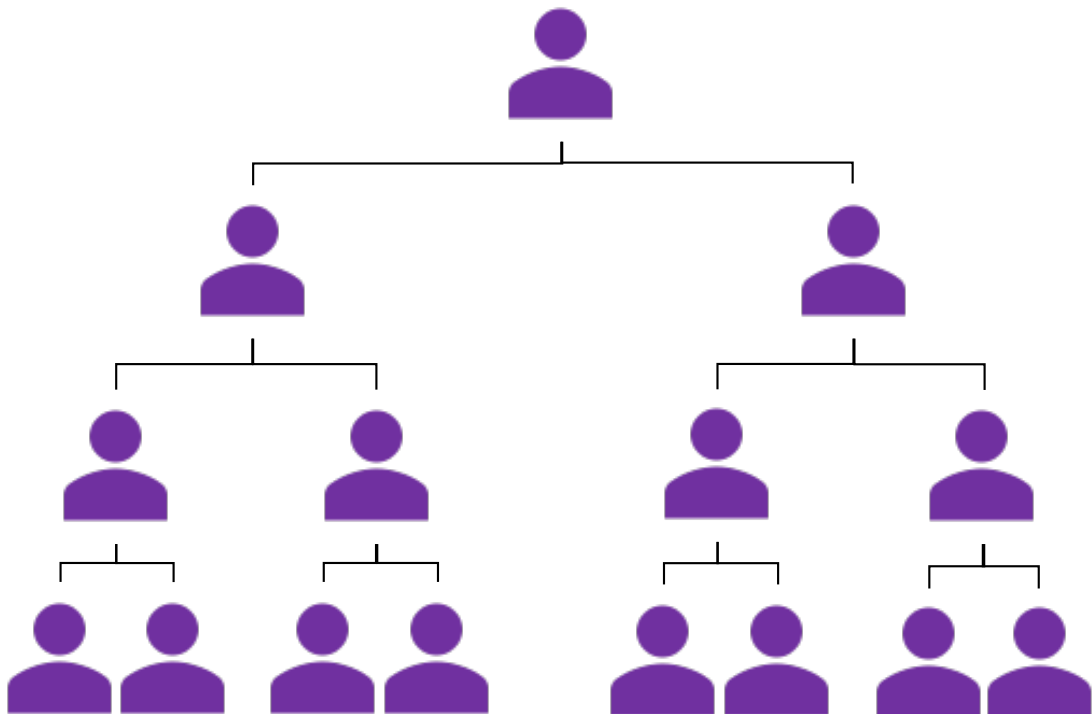
Picture 3. Forced matrix (Chandrashekhar, 2013)

2.3.4 Binary

Binary plan is used by 6 % of the MLM companies, also by Nature's Own, a (former) company that has later changed its name multiple times in the past decade. The seller can recruit only two people as his first levels (legs), and any additional recruits become as second levels, third levels and so on. The seller gets paid based on the sales of the weaker leg. (Christensen and Christensen, 2007)

Advantages and disadvantages

Binary plan promotes teamwork because the commission is paid by the weaker leg. This motivates leaders to support and train the downline members to increase the future commissions. Because a spillover is possible also in Binary plan, having an active and successful upline can increase the members chance of working less. On the other hand, the spillover can be seen as a disadvantage when inactive members with "do-nothing" mindset trust that their upline will do all the work and afterwards feel disappointed when earning little or no commission. An example of a sales organization that uses Binary compensation plan can be seen from Picture 4.



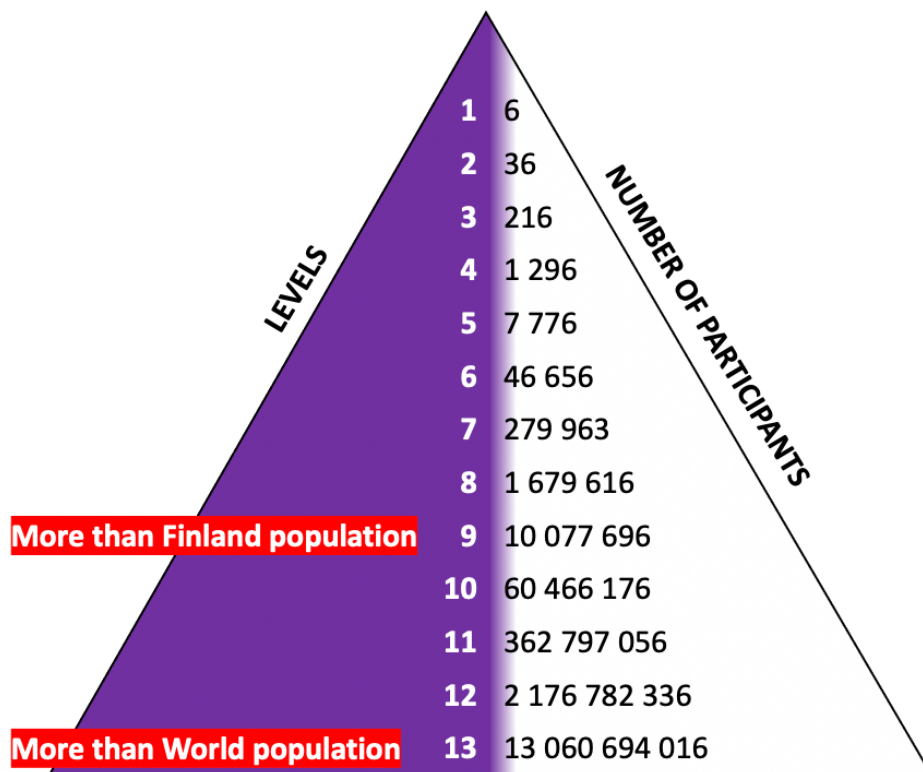
Picture 4. Binary plan (Rawlins, 2020a)

2.4 Pyramid schemes and Ponzi schemes

Pyramid schemes are scams that can look at a first glance significantly like MLM business opportunities (Federal Trade Commission, 2019). In 1990's only 25 % of DSA member companies were MLM's but by 2011 the share had rocketed to 96 %. The rapid increase partly enabled forming of pyramid schemes by complicating the separation process between legal and illegal business. (Bosley and McKeage, 2015.)

In pyramid schemes the products are only props to make the operations seem legitimate. The products are overpriced, bad quality, valueless or difficult to sell and the focus is on recruiting new members that buy the starting kit (Finnish Competition and Consumer Authority, 2014). As the money comes in only from the new members, depending on the structure of the pyramid, 50 to 99 % of the members will lose their money. In practice at least 50 % of the members are on the lowest level, meaning they have paid some amount when joining in the scheme but have not yet earned anything. This means that they will lose the money invested and this cannot be fixed by a new recruit since the issue would only move to the next member. (Porema, 2016.)

There is often a discussion of exponential growth.



Picture 5. Exponential growth (U.S. Securities and Exchange Commission, n.d.)

Picture 5 presents the exponential growth assuming every representative would recruit six new members under themselves. As it can be seen, after 13 levels the whole population on Earth would have been recruited in the system. (U.S. Securities and Exchange Commission, n.d.)

Money Collection Act in Finland defines Pyramid schemes illegal and they are also prohibited worldwide (Finnish Competition and Consumer Authority, 2014). However, the Finnish Money Collection Act does not define how much of the revenue of network marketing company must come from external customers so that the operation would not be counted as pyramid scheme. The European Union's guideline for the limit is 50 % (Karisto, 2015).

Ponzi schemes

The Ponzi schemes got the name after Charles Ponzi. In 1920's Ponzi claimed to invest on international mail coupons and promised the investors 50 % profit in few months of

investment. The funds from new investors Ponzi used to pay fake returns on earlier investors. (U.S. Securities and Exchange Commission, n.d.) In Ponzi schemes, people are promised high profits with minor or no risk, but in reality, the earlier investors are paid with the money collected from new investors. To work, the scheme needs constant money flow and new investors must be recruited continuously. When recruiting new investors gets impossible, the scheme collapses (U.S. Securities and Exchange Commission, n.d.).

In many cases the same people are acting as the scammers or are the ones who get scammed time after time without learning their lesson from the collapse of the previous pyramid scheme. Instead, this can even boost the willness of the victim to find a new tempting business opportunity in hope of easy money, meanwhile the ones that have gained money in pyramid schemes might try to make it again. (Järvinen, 2020)

2.5 Differences and characteristics between MLMs and pyramid schemes

Emphasis on recruitment, complex compensation plan, lack of evidence on selling outside the network, promises of quick wealth and passive income are warning signs of fraudulent MLM activity (Bosley and McKeage, 2015). In legal MLM a company is registered in Finland and the contact details are easily available. The company sells and markets its products to the consumers. The sellers are private agents, and selling of the product is the basis of the business. In pyramid scheme a company or the contact people behind the system do not exist or they are unattainable. It can be difficult to get a clear picture of the organisation. The operating history of the company is short and there is a promise of great wealth. (DMA Finland, 2012.)

Joining the MLM network does not require excessive costs. The new member usually buys a starter kit that includes necessary material and information for starting the business, but the membership does not oblige the representative to buy the products or to sell them. However, it requires activity from the representative to receive commission from the sales of his own network. There are written contracts between both parties - the company and the sales representative. Being a member of the pyramid scheme requires financial investment which basically has no value or compensation. There are no requirements to buy or to stock anything, because there are no products to be sold. Written contracts between the parties do not exist. (DMA Finland, 2012.)

The products sold in MLMs can be for example cosmetics, clothes, wellness products or cleaning products that have rivals on markets. In trade all the laws and regulations are followed (e.g., cancellation policies). The MLM company also commits to buy back the stock of the resigning representative with reasonable terms. The pyramid schemes have usually no products or services that are sold, but a membership without any compensation or ostensible products that have no rivals on markets. Usually there are no clear contracts or terms and conditions. In case there are products that are sold, there are no possibilities for returns when resigning the business. (DMA Finland, 2012)

2.6 Marketing and recruiting

Instead of using advertising and other indirect communications, direct selling companies depend more on the selling skills of the sales representatives and typically the selling situations are in-home events, such as door-to-door selling, parties, appointments, catalogs and on internet. (Vander Nat and Keep, 2002.)

In most network marketing business models, the moment of signing, the new member becomes a sales representative, that is not employed by the company but a self-employed agent. The reseller can sell and market the products of the company in numerous ways. The companies, however, have their own guidelines and policies for marketing the products (Verkostomarkkinointi, n.d.) It can be difficult or even impossible for the companies to monitor how the individual sales representatives are marketing the products. Online, there can be some ways to track the behavior of the resellers and the correspondence will leave a record, but for example in appointments it can be complicated to prove afterwards what was said.

The best way to advertise MLM products is word-of-mouth marketing. People tend to trust a recommendation from someone known, for example a family member or acquaintance and listen to them rather than reading an email or paid advertising (Holmes, 2014). If the products are sold through catalogs or are type of products that cannot be tested in the sales situations, there is no evidence of the functionality. Positive user experience of a friend can encourage on making the buying decision and if the buyer has any hesitation, it can be more convenient to consult a trusted friend rather than contact an unfamiliar sales agent.

Fitline is a product line of PM-International that contains cosmetics and supplements. These products are sold in the company's online store but also by network marketing. The sales representatives and teams market Fitline products on social media, for example on Facebook and Instagram (Varpula, 2019b). Some sales representatives market the products with prohibited health claims. Numerous resellers have claimed the products being suitable for children and pregnant women, even the product information of some supplements advise they are not recommended to be used during the pregnancy at all. New members are lured to the business with promises of financial freedom or friendship (Varpula, 2019a). During 2019 Finnish Competition and Consumer Authority received around 40 contacts regarding PM-International Finland, in particular unclear terms and confusion in sales situation and health claims of the products (Karjalainen, 2020).

Even when selling the products, the commission is paid, usually the real earning potential comes from building the network by recruiting new members to join in (Verkostomarkkinointi, n.d.). Christensen and Christensen (2008) write that there are two ways to recruit new members. The first one is to approach every people the seller knows and meets hoping they will listen the sales speech. The rejection rate is high with this kind of approach where the seller tries to convince the listeners to consider the business opportunity. The second, more effective way is to contact with a genuine desire to help the people the seller thinks that could be interested of this business opportunity (Christensen and Christensen, 2008). The freedom and flexibility to work whenever and wherever desired emphasizing the disadvantages of traditional work options are often included in the recruitment pitches (Bosley and McKeage, 2015).

To grow the organisation, the number of people approached and recruited must be high enough, because not every recruited seller will become productive. From 10 people recruited, only one will usually become a productive seller. The rest are often signed up for wrong reasons and quit, work less than 5 hours a week and also, a high percentage of representatives get discouraged in 9 months because they are unable to expand their community wider than friends and family members and either leave the business or become minimal producers. (Christensen and Christensen, 2008)

The promotional brochures may also include unclear and ill-defined information and terms, for example the difference between gross and net income can be blurred in promotional earning claims with not reducing the business costs, such as product

distribution costs, sales-aid material and training conference entry fees. (Vander Nat & Keep, 2002)

In many cases, titles are a way to increase the candidate's interest on the job. In Zinzino business model, there are 15 levels: Partner, Bronze, Silver, Gold, Executive, Platinum, Diamond, Director, Crown, Royal Crown, Black Crown, Ambassador, Royal Ambassador, President, Elite President, Global President and One Star Global President. The members that reach the Diamond level earn EUR 3 000 a month plus a car bonus which includes the monetary commission and the permission to install company stickers on the car. There are limitations to the type of the car and the stickers must be paid by the representative himself. When the member has a team with 4 Diamonds, he reaches a Crown level and financial freedom with monthly income of EUR 12 000 (Karisto, 2015).

Like many other companies, in addition to the car bonus, Forever Living presents in its brochure other tempting incentives, such as free annual vacations and a possibility to get involved with a bonus scheme the company shares millions of dollars every year to its sales representatives (Forever Living, 2020). Visibility gained with car deals, apparel and members activity on social media are practices to promote visibility and adoption to the members social network (Bosley and McKeage, 2015).

Fascinating benefits, such as a car bonus and vacations, thought of being a part of a successful team and seller levels that are used in the same manner than job titles, give people the feeling of companionship and importance.

3 IMPLEMENTATION OF RESEARCH

This chapter discusses the implementation of research process, the selected data collection method and the reasons to choose the selected method.

3.1 Data collection method

The data collection method for the research was quantitative method implemented with an online survey. In Quantitative method, there is an expectation of specific results based on a hypothesis. The survey is tested with a test group before releasing it and the results either support or refute the hypothesis. The research can either support or develop the theories (Saunders et al., 2019). Before publishing, the survey was tested with sending the pilot for eight individuals and making the improvements based on the analysed data and comments from the respondents. Testing the survey in advance ensured that answering the questionnaire was convenient for the respondents, the quality of received data was informative enough to draw conclusion and that the possible mistakes and unnecessary work was avoided. The questions and answering options were revised and corrected after the test.

For being useful, quantitative data must be analyzed and interpreted. For the analyse can be used charts, diagrams and formulas and numerous different analysis tools. In this research the data was mostly analyzed using Excel. Even the data collection is based on established methods, it takes some time but after the data is collected, the analysis part is relatively fast to implement. The objective is to collect as much data as possible to draw a conclusion. The smaller the response rate is, there is a possibility that the greater the risk of distortion of the results. There is a risk that the chosen meters are bad, or the respondents do mistakes with answering, either on purpose or accidentally. (Saunders et al., 2019)

3.2 Data collection and sampling method

An anonymous online questionnaire was considered to be a suitable method to receive genuine responses regarding the knowledge and image of network marketing from the consumer perspective and to investigate the ratio of people involved with network

marketing business, their experiences and reasons for joining in and quitting. It can be uneasy for people to admit they have been using money on expensive starting packages without having further motivation to continue working with network marketing, ordering unworthy products or even lost their money in pyramid scheme. Even if their experiences have been good, because of the bad reputation of network marketing field not many want to reveal they have been a part of one in a way or other, although the data was processed anonymously, and no individual respondent can be tracked.

The survey was created with Google Forms -application. This application was selected because it is easy to use and versatile enough for creating this type of questionnaire and the data can be later analyzed using the same tool or for example with Excel as in this case.

The survey was open for anyone for three weeks from 1.3.2021 to 21.3.2021 and it was published on several online channels, including Facebook groups and discussion forums (Suomi24, vauva.fi) that were considered to be popular among the target group. The questionnaire was made to be simple and quick to fill and it included multiple choice questions, Likert scale questions and some open questions. Because the research concerns Finnish markets and publishing the survey in English would decrease the number of responses, the survey was published in Finnish only.

4 RESEARCH FINDINGS

The following chapter will discuss the results and findings of the research. The data collected by the survey was analysed with calculations and charts created with Excel and with the charts from Google Forms.

4.1 Survey results

The number of received responses were 66, which was considerably less than expected. An inducement, for example an optional raffle among the respondents including a prize, such as gift card or movie tickets, would have possibly encouraged more people to fill the survey. The survey was open first for 2 weeks but was extended with one week because of the low response rate. The responses were first reviewed to find out there are no improper or false responses and when it was resolved that none of those exist, all the answers were able to be included in the analyse. The responses received by the survey were partly as expected but also included unexpected results.

Question 1: Which of the following network marketing brands/companies you know or have heard about?

The respondents were asked to select the companies they knew from the list that included names of 11 famous network marketing companies that operate in Finland. The respondent also had a choice to name other companies that were not listed in the answer options. (Figure 4) Five companies that received the most answers were Tupperware (63), Oriflame (60), Partylite (51), Avon (43), Fitline (35). In addition to the listed 11 companies, there were 21 other companies that were mentioned. Some of the additional mentioned companies do not operate in Finland.

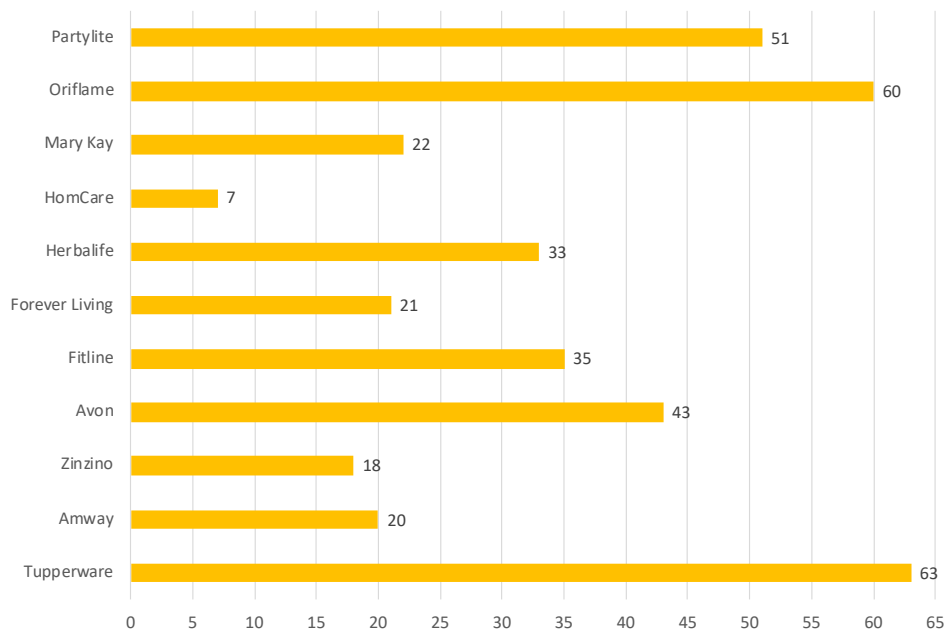


Figure 4. Company awareness

The companies that received the most answers were in line with my own expectations, but among the answers were multiple companies I had never heard before. As discussed earlier, Tupperware is one of the oldest network marketing companies in the world and also the first MLM company that was imported to Finland. Among the other companies the respondents listed was also named companies that would have possibly received significantly more answers in case they were included on the default answer list. The results would possibly have been completely different if the question was open ended, but there would have been a risk that the respondent feels the survey time consuming and does not complete the survey.

Question 2: Are you ordering/have you ordered products from any network marketing company?

The answer options for the question were “Yes” and “No” and in case the respondent answered “No”, meaning they had not ordered any products, they were asked to proceed in question number 8. (Figure 5) 53 % of the respondents answered that they had placed orders or are ordering at the moment, while 47 % answered “No”.

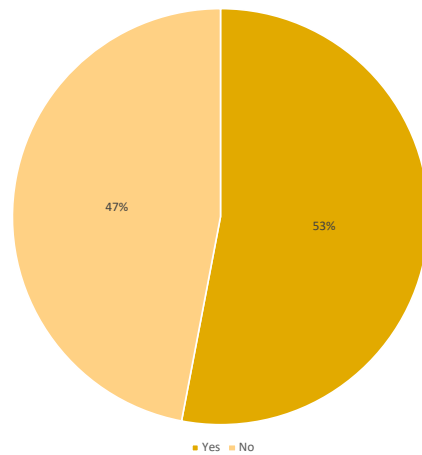


Figure 5. Share of ordering network marketing products

The result was unexpected, I was waiting for significantly lower rate since in many network marketing companies the ordering of the products happens in parties or directly from the reseller. The responses on question 3 will, however, explain the high order rate.

Question 3: If your answer for the previous question was yes, which company's products have you ordered?

The question was open ended question. (Figure 6) The companies that received most answers, meaning the respondents have ordered products from this company were Oriflame (54 %), Tupperware (34 %), Partylite (29 %), Avon (29 %), Forever Living (14 %). Several respondents had ordered products from multiple companies.

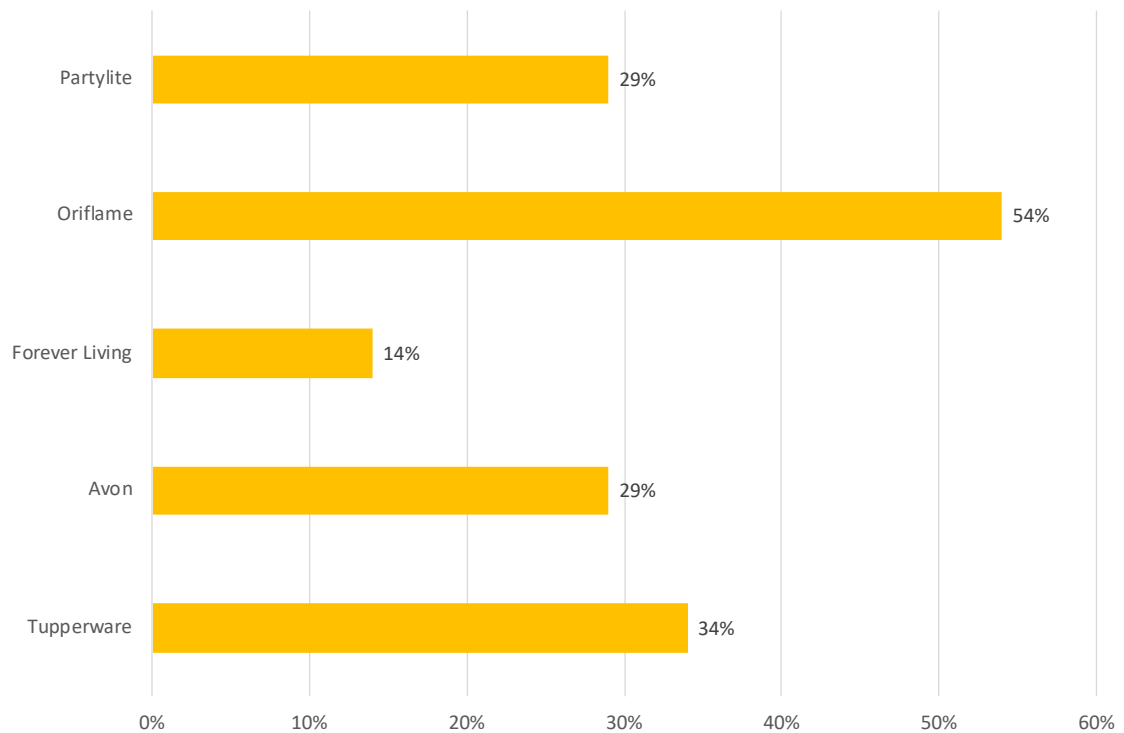


Figure 6. Companies the respondents had ordered the most from

See Figure 6, over 50 % of the respondents that had ordered products from network marketing company, had ordered products from Oriflame. Oriflame products are usually ordered from the reseller by selecting the products from a catalogue. After the reseller has collected the orders, she orders the products and provides the products to her customers in due course. The products are mostly inexpensive, and the catalogue attracts to impulse shopping. Avon operates with the same practice. I have also ordered products from both of these companies. Tupperware party plan has been in Finland since 1960's and it is not surprising that nearly all of the respondents know it (Figure 4), and many have ordered its products.

Question 4: What were the reasons that made you want to order the product?

The question was open ended and several respondents listed more than only one reason. (Figure 7) The most named reasons were prior personal positive user experience (10), recommendation from a friend (8), supporting the reseller (8) and interesting product (6). Other mentioned reasons were that the product was not available elsewhere, received gift, feeling of pressure, purchase of starter package, impulse buy, need for the

product, single purchase, advertisement, ease of ordering and message from the reseller. These reasons received only one or two answers each.

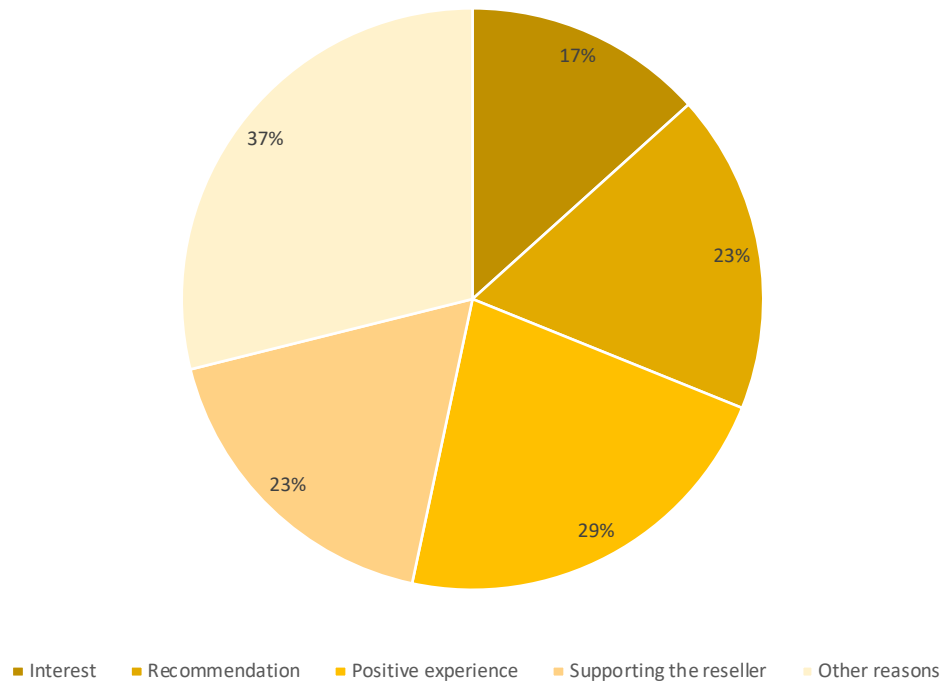


Figure 7. Reasons that made the respondent buy the product

It was surprising that the positive previous user experience was the reason that was mentioned the most often, which can also mean that some people order the same products repeatedly. Like in any other business model, high customer satisfaction increases customer loyalty.

Question 5: What is your opinion of the product and company?

The respondents were asked to rate their opinion of the company and the products they had ordered using Likert scale.

Question 5.1: The product was affordable

As Figure 8 shows, 43 % of the respondents somewhat disagree with this statement. The average of the answers was 2,8 which is closest to option “Neither agree nor

disagree”. However, the replies were scattered in both ends of the scale, since only 9 % of the respondents had selected this answer.

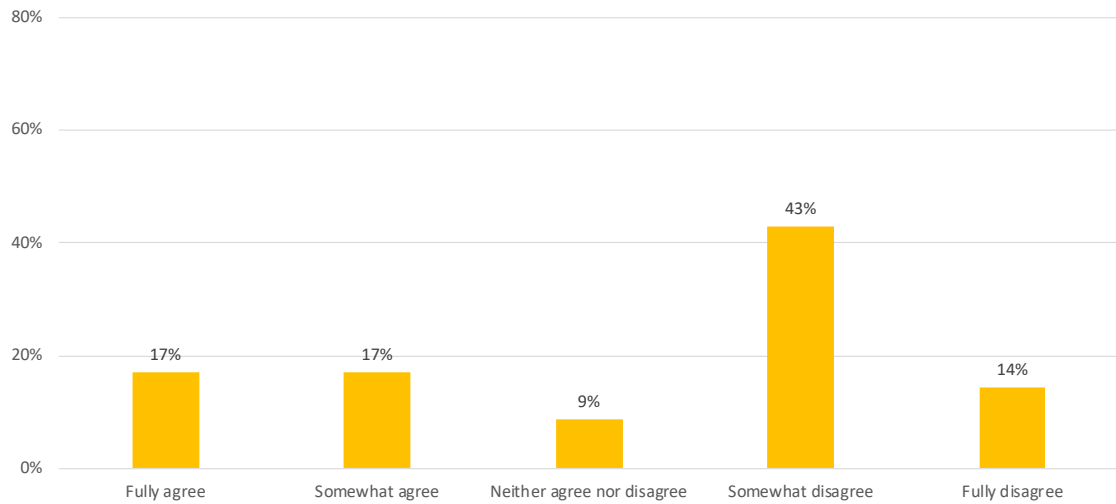


Figure 8. Statement: The product was affordable

The prices of the products and packages depend on the company and in some cases, for example with Tupperware, the products are more expensive than the equivalents that are sold in stores. Some companies also sell the starter packages, and the buyer cannot affect the content and through this to the price of the package.

Question 5.2: The product was good value for money

51 % of the respondents somewhat agreed with the statement. (Figure 9) This option of the statements was also closest to the average, which was 3,8.

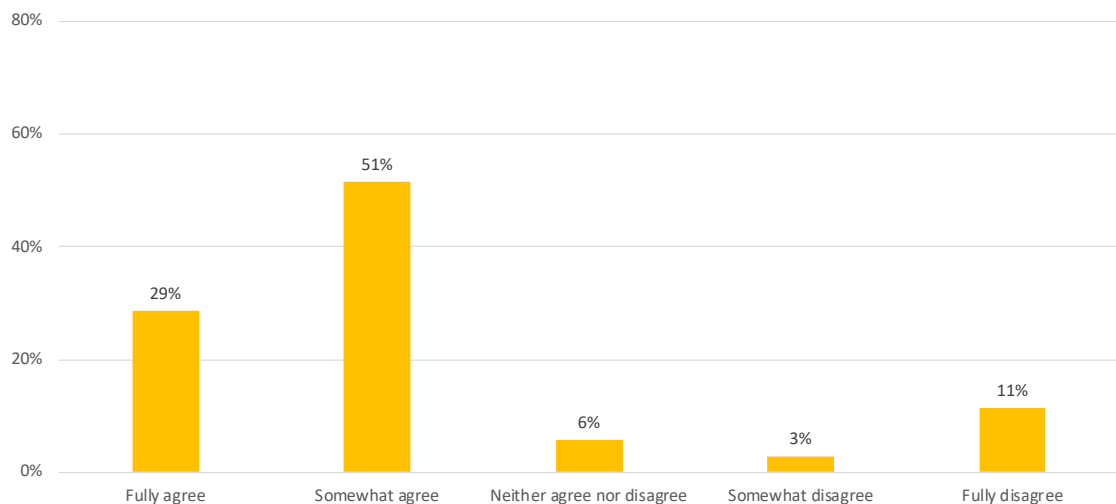


Figure 9. Statement: The product was good value for money

For example, even Tupperware products might be more expensive than in store sold equivalents, the products are in high quality and have a lifetime guarantee.

Question 5.3: I would buy the product again

Figure 10 shows that 60 % of the respondents agreed with the statement: 26 % fully agreed and 34 % somewhat agreed. The average of the answers was 3,3 which means the replies were scattered again in both ends, because the closest answer option for this value was “Neither agree nor disagree”.

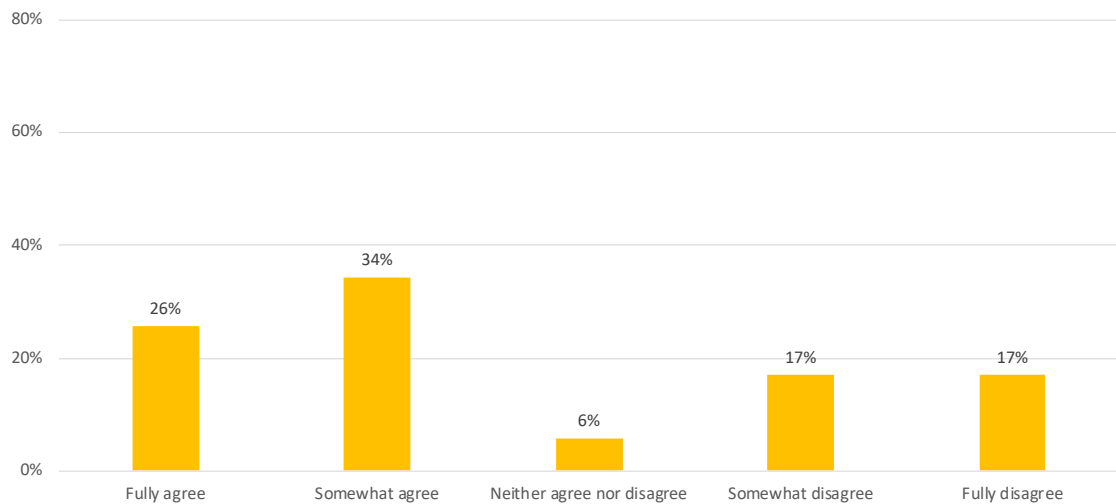


Figure 10. Statement: I would buy the product again

The answers for the statement were scattered in both ends, which correlates with the above results, such as positive user experiences that make the customer return but also the feeling of expensive product that was not value for money.

Question 5.4: I would buy the product if it was available in store

49 % of the respondents replied they would buy the product if it was available in store. (Figure 11). The average of the answers was 4,0 which is closest to the statement “Somewhat agree”. Only 15 % of the respondents either somewhat disagreed or fully disagreed with this statement.

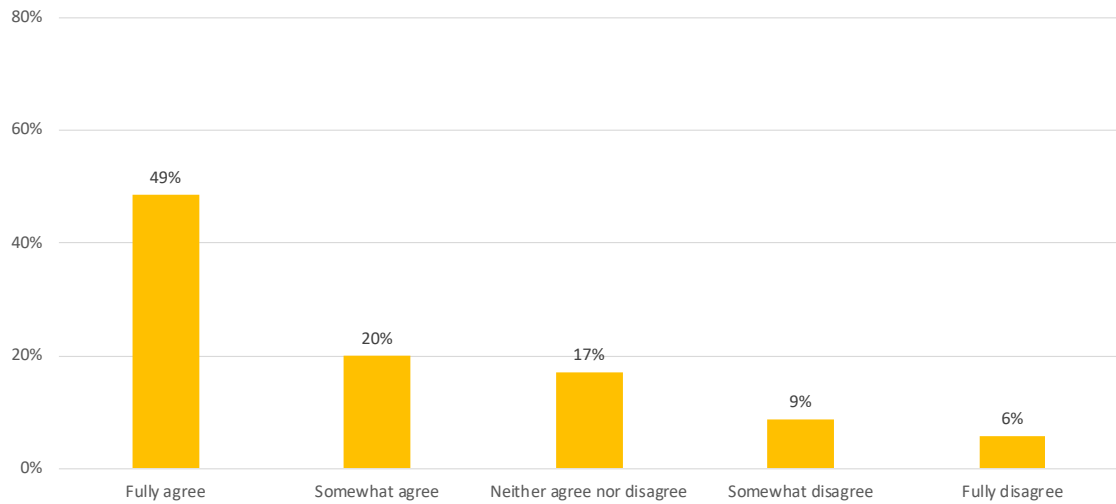


Figure 11. Statement: I would buy the product if it was available in store

The positive user experiences also correlate with that most of the respondents would buy the product if it was available in store. (Figure 11). Ordering products directly from the reseller can be inconvenient and the sales volume would likely increase if the products were available for larger groups.

Question 5.5: I received enough information of the product

Over 70 % of the respondents answered that they received enough information of the product, as can be seen from the Figure 12 below. Only 6 % of the respondents fully disagreed with the statement.

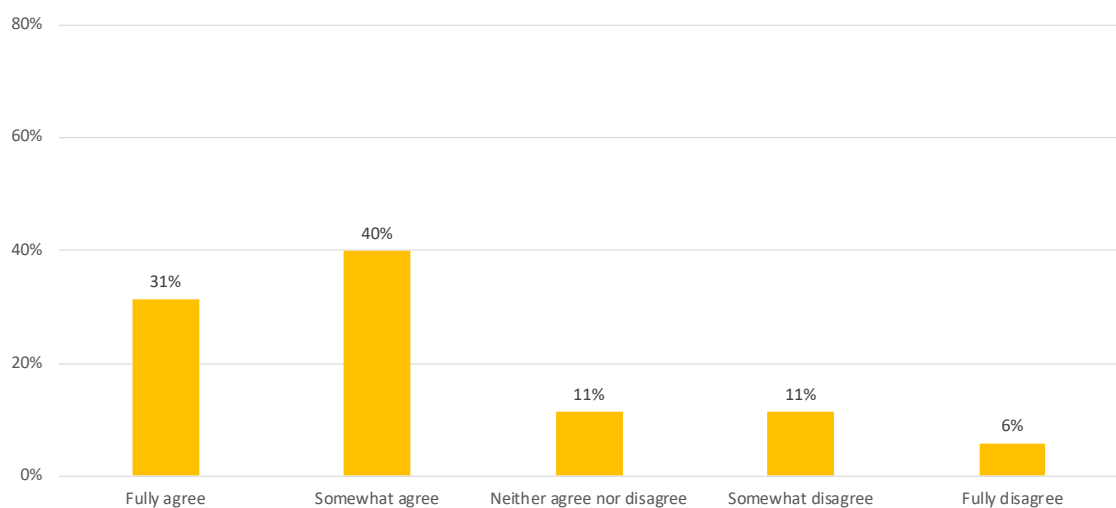


Figure 12. Statement: I received enough information of the product

This can be explained with the fact that the buying of network marketing products usually happens directly from the sales representatives that can give personal recommendations and user guidance. For the resellers, it is important to make the customers return and maintaining an acceptable service level is an appropriate way to keep up the customer satisfaction. A satisfied customer will also possibly forward a positive word-of-mouth feedback, which is a best way for marketing the network marketing products as discussed before in this paper.

Question 5.6: The company seemed trustworthy

Figure 13 shows that the responses are divided almost identically with the previous statement describing that over 70 % of the respondents agree that the company seemed trustworthy and only 6 % fully disagreed with the statement.

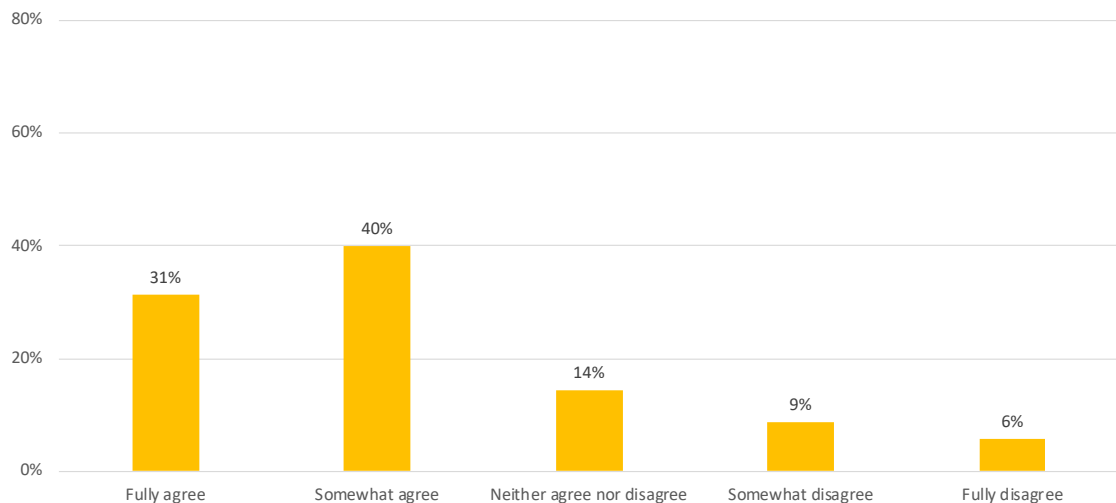


Figure 13. Statement: The company seems trustworthy

Awareness of the company, positive word-of-mouth feedback from a friend and being in personal contact with the sales representative are factors that builds the trust. Also, many of the companies the respondents had ordered from are large, well recognized companies with long operating history that increases the feeling trust for the company.

Question 6: Your other opinions of the product

This question was an open-ended question. Below are some comments from the respondents:

“I have received value for my money. However, I have not ordered the products again and part of the reason might be that it is easier to order the products for my own needs online or buy from a store.”

“Some of the products were maybe a bit overpriced.”

“Ordering is a bit difficult.”

“Good product.”

“Product worked as it should work.”

The comments received are in line with the responses for the earlier questions and not all the respondents answered this question since answering the question was not mandatory.

Question 7: Where did you hear of the product/company from?

As Figure 14 shows, 76 % of the respondents had received the information from their friend, acquaintance or colleague, 11 % from a family member, 11 % from social media influencer or a celebrity and only 3 % from an advertisement.

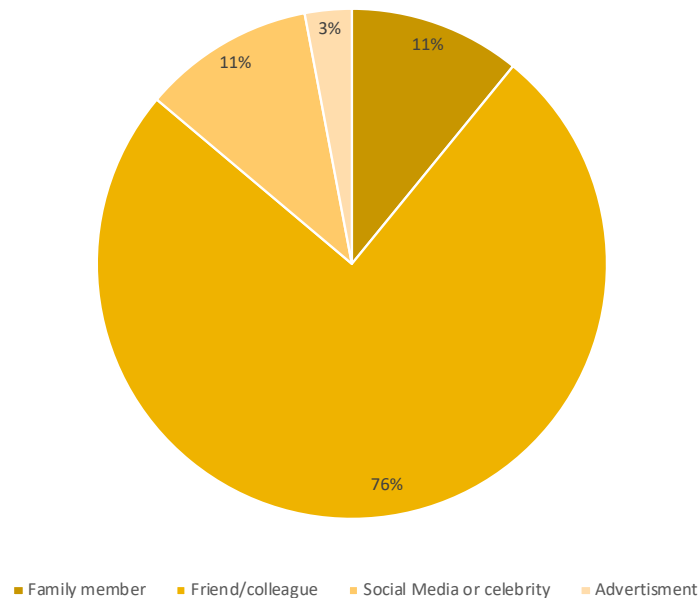


Figure 14. The source the respondents heard of the company from

Network marketing has received visibility online in past years and as mentioned earlier, for example FitLine representatives market their business and products in social media.

Question 8: Have you been working a sales representative of a network marketing company?

As Figure 15 shows, 15 % (10) of 66 respondents answered that they have been working as a sales representative. The relatively high response rate can be explained with that the survey link was shared in channels that are mostly used people that are target group for many network marketing business.

The respondents that answered “No”, were asked to proceed on question number 15.

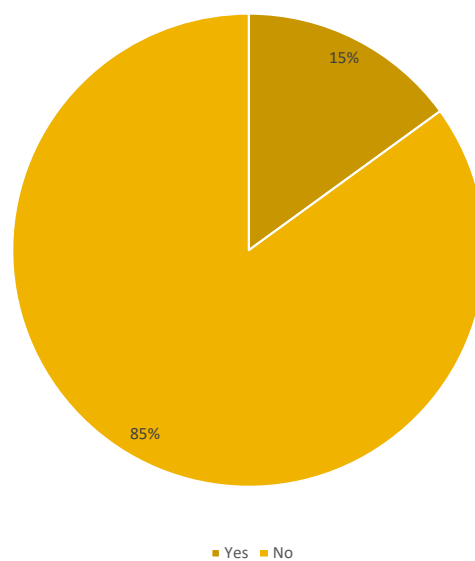


Figure 15. The share of respondents working as sales representatives

Question 9: If your answer for the previous question was yes, which company was it?

Of these 10 respondents who had been working as sales representative, three had been a member of more than one network marketing company. The respondents were asked to name the companies they had been members of, and the answers included 11 different companies. Of these companies, four received more than one answer: Tupperware, Zinzino, Oriflame and Avon.

Question 10: How important were the following reasons for you to join in?

The above respondents were asked to rate how important were several reasons for them to join in the network marketing business on the Likert scale. The questions and answers are presented below in their own figures to make them easier to read and to understand.

Financial freedom

As it can be seen from Figure 16, 4 of 10 respondents answered this reason was somewhat important and one answered it was very important.

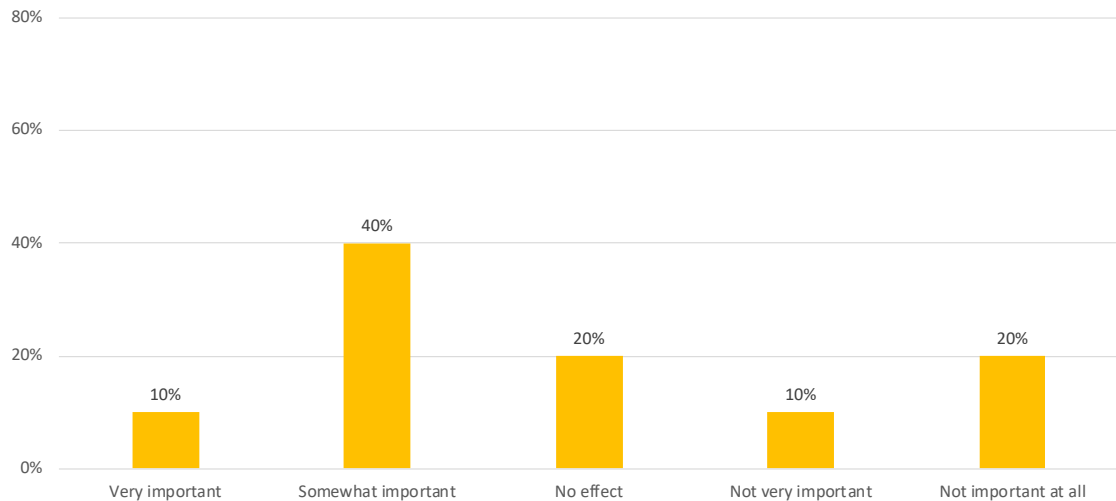


Figure 16. Importance of gaining a financial freedom

It was slightly surprising that only one respondent answered that financial freedom was very important reason for them to join in since financial freedom is one of the inducements that are most often mentioned in the sales speeches. When joining in network marketing business, it must be taken into consideration that in reality, reaching a financial freedom requires great effort and this can explain why the reason is not very important for joining.

Small additional income

However, as Figure 17 shows, for 9 out of 10 respondents gaining a small additional income was either important or very important reason and only one answered it is not very important.

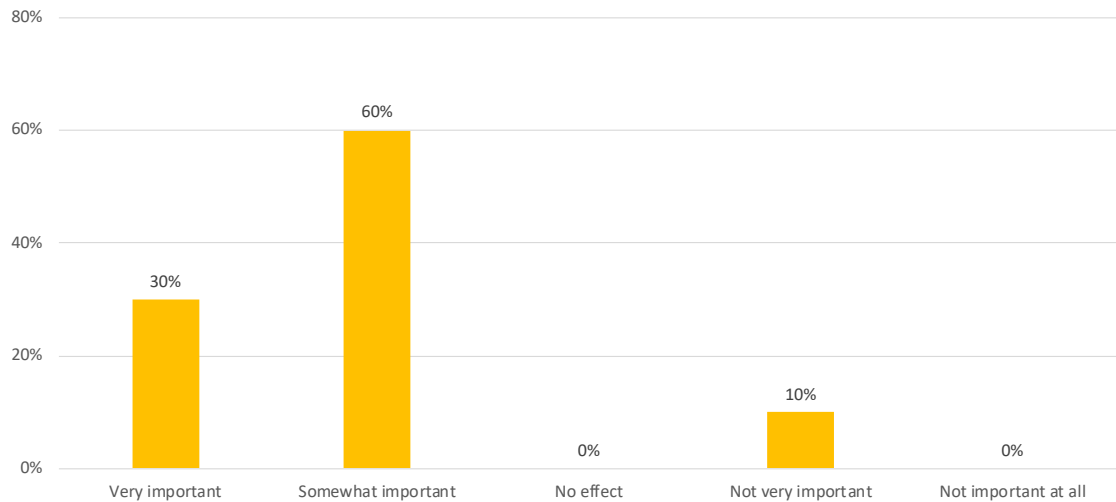


Figure 17. Importance of gaining small additional income

Possibility to buy products cheaper for own use

The possibility of buying the products for own use with cheaper price was very important for 4 and somewhat important for 3 respondents. (Figure 18) None of the respondents answered it was not important at all. As it was discussed earlier in this paper, at least in Unilevel compensation model the members get wholesale buying advantages and are able to order directly from the company. The purchases are mostly for own use, but some members have own customers.

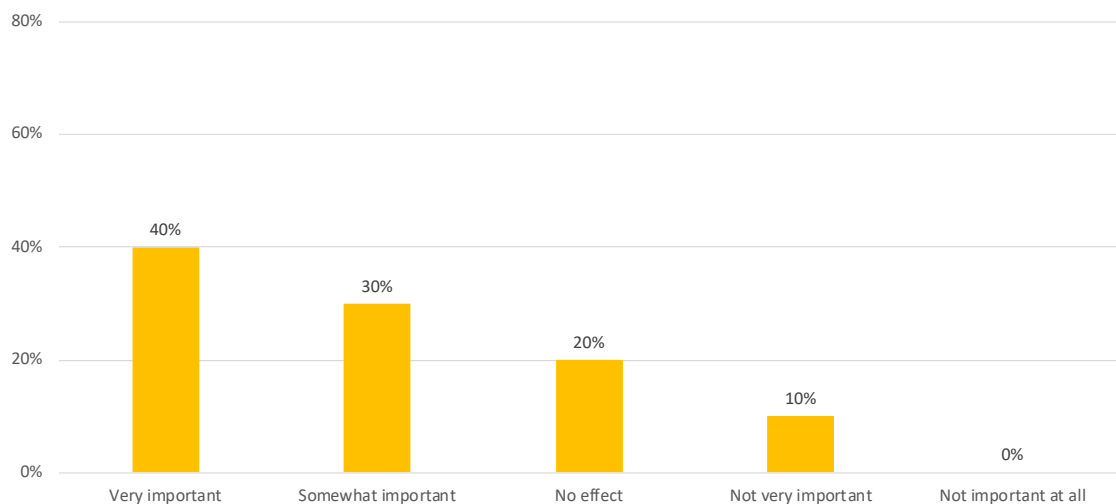


Figure 18. Importance of the possibility of buying the products cheaper for own use

Getting new friends or being a part of a team

Only one respondent answered getting new friends or being a part of a team, it was very important and one it was somewhat important, as can be seen from the Figure 19.

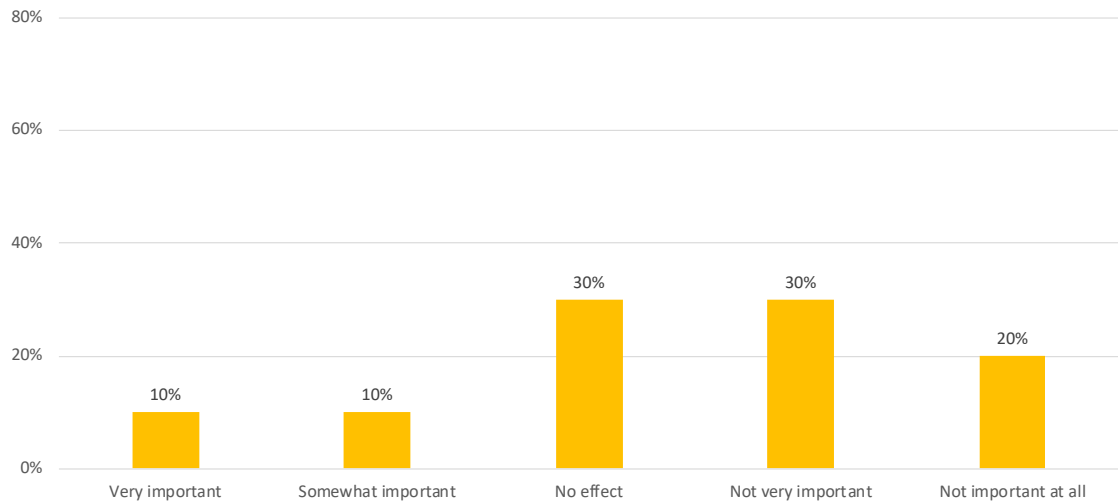


Figure 19. Importance of making new friends

Feeling of being under a pressure

As Figure 20 shows, none of the respondents answered that feeling of pressure was very important reason for them to join in, but 4 answered it was somewhat important.

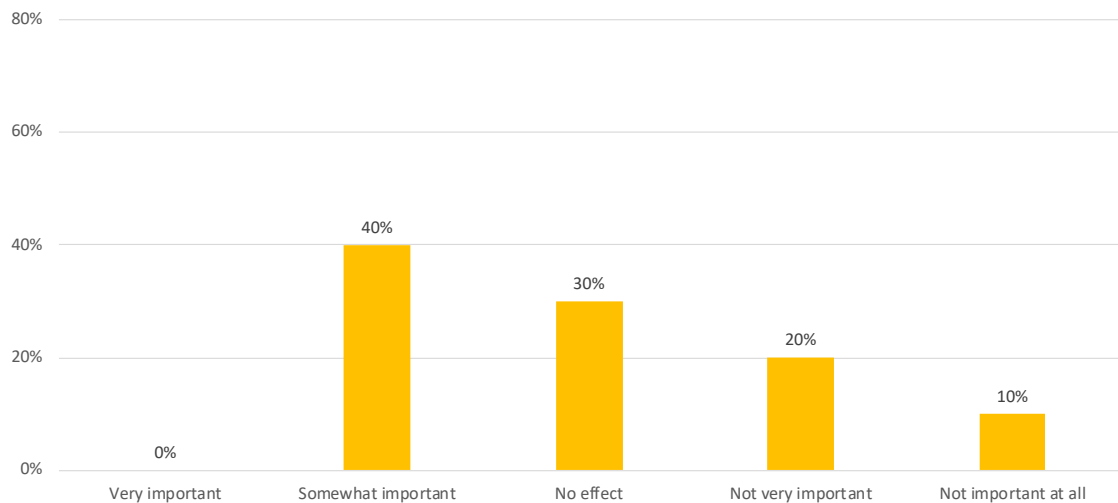


Figure 20. Importance of feeling of pressure

Regarding the answers received for questions 17 and 16, pressure was often mentioned as a reason to justify negative image of network marketing and as first thing that comes in mind for respondents when thinking of network marketing. This can be explained with the people that have felt strong pressure in sales situations have not joined in the business.

Question 11: Possible other reasons you had for joining in?

The respondents had also an opinion to list other reasons they had for joining in the business. The following answers were received:

“Own will.”

“I tested the products and they felt good.”

“The main reason has been the products I have been satisfied with and have been able to recommend for others through my own experience. In addition, I am very social person and enjoy being with other people. I enjoy arranging parties, where I can meet many friends, new and old. I have also wanted to have some balance for my stressing and hectic job.”

“Interest for the field, a possibility for easy money/partly passive income possibility.”

Question 12: Is/was the job as a sales representative your main source of income?

Network marketing was not the only source of income for any of the respondents and only 3 respondents are still members of a network marketing company.

Question 13: Are you still working as a sales representative of a network marketing company?

70 % (7) out of the respondents have resigned and 30 % were still working as sales representatives. The survey did not include a question to clarify for how long the respondents had been working in network marketing company before resigning. This question would have been interesting addition to the survey to find out if the responses correspond with the research findings of Christensen and Christensen (2008) that a high percentage of representatives give up in 9 months for being unable expanding their community.

Question 14: What were the reasons that made you quit?

The question was open ended and reasons that were mentioned the most often were that it was too time consuming in relation to the income, the compensation was poor and that the respondent's values did not match with the company values.

Question 15: How is your overall perception of network marketing?

The respondents were asked to rate their overall perception of network marketing on 5 step Likert scale where 1 is negative and 5 is positive. (Figure 21) 33 % (22) of the respondents answered 1, meaning that their overall perception of network marketing is negative. Only 3 % (2) answered 5. The average of all answers was 2,2.

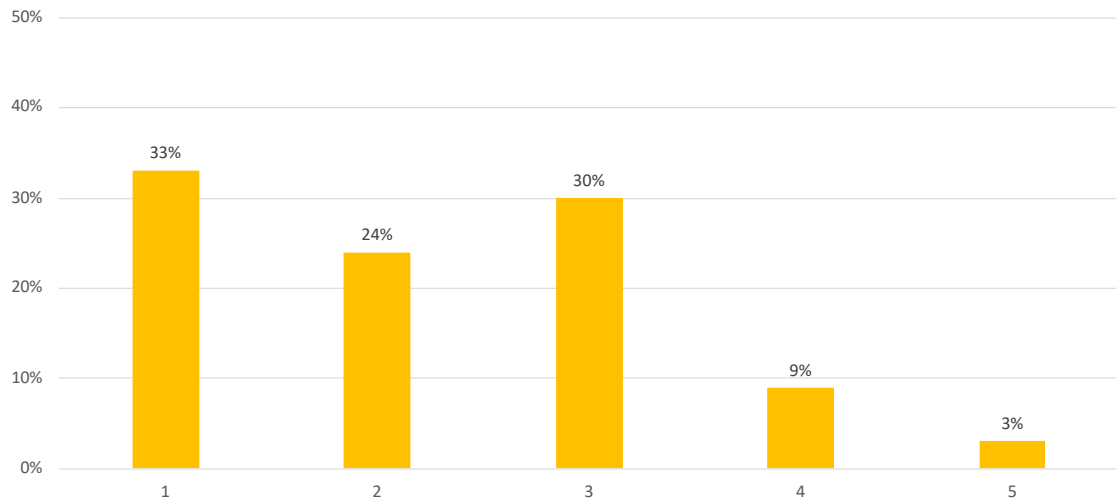


Figure 21. The overall perception of network marketing

The average rates of the respondents that had ordered the products or had been a member of network marketing business were also reviewed and it was found out that the average with respondent group that had ordered the product was 2,5 and with respondent group that had been members was 2,8.

Question 16: Shortly justify your answer for the above question:

Negative overall perceptions were justified with following reasons:

“Too big promises, I feel pressure, has caused inconvenience in friend relationships.”

“Major of those are not on a healthy base for multiple reasons. They are driven by greed and empty promises and the possibility to success is even smaller than in telemarketing.”

“As researches show, a weak possibility to earn. Not sustainable business model, representatives use unethical means in selling.”

“I stay away of the sales events, because I have a feeling and an image that there products are hustled, and a pressure of buying appears. At least some companies' products are more expensive than similar products sold in stores.”

“Potential sales representatives are not explained detailed enough how the earnings are forming. The products are sometimes sold poorly, the reseller has no product knowledge or do not understand the regulation.”

“The products are not so exceptional, a terrible hassle to order vs. buy from the store, the products are pushed and depending on the product, part of them are also completely scam. The resellers are often exploited, and they can get bankrupt.”

Recurring themes in those regarding negative image include the feeling of being under pressure, empty promises, pushy style in selling, image of pyramid scheme and expensive products. As discussed earlier in this study, it is difficult to maintain a steady income level having network marketing as a full-time job. Also, none of the respondents had network marketing as their primary source of income. The news of collapsed pyramid schemes sometime reaches headlines and in past years network marketing has been present starting from the scandal around false advertising of FitLine products. These factors definitely cause inconvenience for the reputation of network marketing industry.

Question 17: Which five words are the first that come in your mind of network marketing?

In the end of the survey the respondents were asked to list 5 words that first come in their mind regarding network marketing (Picture 6). The words were placed in a word cloud. The word cloud highlights the words that were mentioned the most by the survey respondents. The most used words were scam (21), expensive (16) and pyramid scheme (11).



Picture 6. Word cloud

This question was slightly inefficient, because the words were varying considerably, and the number of individual words was excessive for making further conclusion. However, the words that received the most answers highlighted clearly from the mass. An idea for improvement would be to ask respondents identify only adjectives and/or less words. Also, the survey language was Finnish and there were multiple synonyms for some words and finding an English translation for some words was difficult.

Question 18: Other comments on network marketing?

The final question in the survey was an open-ended question that gave respondents a possibility to give any other comments on network marketing. Below is listed some of the comments received:

“A belittled industry, but fortunately with the modern world the attitudes are also changing in Finland.”

“Sales events seem to be social happenings and as such they might be important for some people and such they are also sometimes marketed.”

“There is always a small number of people with greed to overcome the reason. I also wonder how taxes are paid for this activity. Obscure in every way.”

4.2 Validity and reliability

Validity and reliability are used to assess the reliability and quality of the research.

Validity refers whether the questionnaire is able to measure the factors it was implemented to measure for, whilst reliability refers to its consistency. Validity indicates how well has managed to measure what has to be measured. There is a possibility that the respondents misinterpret the questions different way than the author of the survey. Reliability signifies the robustness of the survey and if the responses are consistent, meaning that the results are similar each time not depending on the conditions. (Saunders et al., 2019) To ensure the results are valid and reliable, the pilot survey was sent for a test group before publishing. Some improvements were made after receiving comments from the test group and analyzing the data. Because the questions are based on the respondents own experiences and opinions, the answer options were defined to be simple and questions presented in neutral manner to avoid triggering the respondent. However, the open ended questions can generate variable responses depending on the conditions and decrease the reliability.

4.3 Learning experience

Network marketing is a topic that raise up argument. I found the topic interesting and contemporary, because it has been trending on social media and online news articles in past few years. The overall opinion of the people and public image of network marketing has seemed to be negative, and I wanted to study whether that is really the case. Choosing a topic I found genuinely interesting made the research process enjoyable and compelling.

Finding neutral, recent literature of the topic and reliable online sources was challenging. Majority of the science literature is old, mostly from 1990's and early 2000's, times when network marketing was a trending business model. The literature included promoting self-help guides for creating a successful network, for selling and recruiting new members but also literature regarding revealed pyramid schemes or other that had a degrading point of view on the topic. Because of the old age of the literature, the number of e-books was limited, and the availability of the physical copies was nearly impossible because of their location. Technology, including mobile phones with internet connection that enable people to be online all the time and numerous Social Media channels have also progressed during the past decade or two so quickly that the old literature cannot contain any studies regarding these factors. Sourcing reliable information online was a challenge, especially regarding the compensation plans. This reinforces the perception

that the compensation plans can be difficult to understand and there can be variations between the companies.

The study left me with additional questions and ideas on how to improve the research further. Collecting responses for the survey was more challenging than I thought, and I would definitely add the inducement and promote the survey in additional sources to receive more responses. Adding the viewpoint of few successful sales representatives or people who work full time in network marketing business would have been an interesting and valuable addition.

5 CONCLUSION

The purpose of the thesis was to objectively study the awareness of multi-level marketing companies in Finland and to find out the differences between MLMs and pyramid schemes. The most recognized MLM companies in Finland are Tupperware, Oriflame, Partylite, Avon and Fitline. Tupperware party plan has been in Finland since 1960's and it is not surprising that it is known by nearly all of the survey respondents. The overall image of network marketing among the consumers was found out to be negative. Recurring themes in the comments regarding negative image include the feeling of being under pressure, empty promises, pushy style in selling, image of pyramid scheme and expensive products. Pyramid schemes can look at a first glance significantly like legal MLM business opportunities but a closer look on the operating history, contact details and products that are sold often reveal the fraudulent activity.

Additional income and captivating benefits promoted in the recruitment pitches, such as car bonus and vacations, supportive team with common goals and impressive titles encourage new members to sign in the business and give people the feeling of companionship and importance.

There can be nearly as many compensation plan variations as there are the companies on the industry and the compensation plans can also be difficult to understand. Besides of commission earned from product sales, the real earning potential usually comes from building the network by recruiting new members to join in.

There is no unambiguous truth behind the surface. Numerous people order repeatedly products from network marketing companies because of their own positive user experience or a recommendation from a friend and are satisfied with the products and the company. Some people join in with high hopes on making a fortune in short time and get bitterly disappointed while others get annoyed of the sales pitches and pushing from their reseller friends. However, there are people who have earned their living with network marketing and are completely satisfied with their job.

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Survey form

Kokemuksia verkostomarkkinoinnista

Tämän kyselyn tarkoituksena on selvittää kuluttajien kokemuksia verkostomarkkinoinnista Turun Ammattikorkeakoulun opinnäytetyötä varten.

Kyselyyn vastaaminen vie muutaman minuutin. Vastaukset käsitellään anonyymisti, eikä yksittäistä vastaajaa ole mahdollista tunnistaa.

Kysely on avoinna 21.3.2021 asti.

***Pakollinen**

1. 1. Mitä verkostomarkkinointiyrityksiä tunnet?

Valitse kaikki sopivat vaihtoehdot.

- Amway
- Fitline
- HomCare
- Forever Living
- Herbalife
- Mary Kay
- Oriflame
- Avon
- Partylite
- Zinzino
- Tupperware

Muu: _____

2. 2. Tilaatko/oletko tilannut jonkin verkostomarkkinointiyrityksen tuotteita? *

Merkitse vain yksi soikio.

- Kyllä
- En (Siirry kysymykseen 8)

3. 3. Mikäli vastasit edelliseen kysymykseen kyllä, minkä yrityksen tuotteita tilaat/olet tilannut?

4. 4. Mistä syistä päädyit tilaamaan tuotteen?

5. 5. Mielipiteesi tuotteista ja yrityksestä

Merkitse vain yksi soikio riviä kohden.

	Täysin erimielistä	Jokseenkin erimielistä	Ei samaa eikä erimielistä	Jokseenkin samaa mieltä	Täysin samaa mieltä
Tuote oli edullinen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tuote antoi vastinetta rahalle	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tilaisin tuotteen uudelleen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Jos tuote olisi saatavilla kaupasta, ostaisin sen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sain tuotteesta riittävästi tietoa	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Yritys vaikuttaa luotettavalta	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

6. 6. Muu mielipiteesi tuotteesta tai yrityksestä

7. 7. Mistä kuultu tuotteesta/yrityksestä?

Merkitse vain yksi soikio.

- Perheenjäseneltä
- Ystävältä/tuttavalta/kollegalta
- Sosiaalisesta mediasta tai julkisuuden henkilöltä
- Mainoksesta
- Muu: _____

8. 8. Oletko toiminut jälleenmyyjänä verkostomarkkinointiyrityksessä? *

Merkitse vain yksi soikio.

- Kyllä
- En (Siirry kysymykseen 15)

9. 9. Mikäli vastasit edelliseen kyllä, mikä yritys oli kyseessä?

10. 10. Mitkä olivat tärkeimmät syyt mukaan liittymiseen?

Merkitse vain yksi soikio riviä kohden.

	Ei lainkaan tärkeää	Ei kovin tärkeää	Ei vaikutusta	Jokseenkin tärkeää	Todella tärkeää
Taloudellinen vapaus	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lisäänsio	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mahdollisuus ostaa tuotteita omaan käyttöön edullisemmin	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Uusien ystävien saaminen tai olla osana tiimiä	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Painostuksen tunne	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. 11. Muita mahdollisia syitä mukaan liittymiselle

12. 12. Oliko/onko työ verkostomarkkinoinnin parissa pääasiallinen tulonlähteesi?

Merkitse vain yksi soikio.

- Kyllä
- Ei

13. 13. Työskenteletkö yhä jälleenmyyjänä verkostomarkkinointiyrityksessä?

Merkitse vain yksi soikio.

- Kyllä (Siirry kysymykseen 15)
 En

14. 14. Mitkä syyt vaikuttivat lopettamiseen?

15. 15. Millainen on yleinen mielikuvasi verkostomarkkinoinnista? *

Merkitse vain yksi soikio.

	1	2	3	4	5	
Negatiivinen	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Positiivinen

16. 16. Perustele lyhyesti vastauksesi edelliseen kysymykseen: *

17. 17. Luettele viisi ensimmäiseksi mieleen tulevaa sanaa verkostomarkkinoinnista *

18. 18. Muita kommentteja verkostomarkkinoinnista

Google ei ole luonut tai hyväksynyt tätä sisältöä.

Google Forms

Vahvistusviesti:

Kiitos osallistumisestasi tutkimukseen!

Mikäli sinulla herää kysyttävää tästä kyselystä, ota yhteyttä tutkimuksesta vastaavaan Anniina Medeiroskseen.

Ystävällisin terveisin
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