Amway's Indian Network Marketing Experience: A Dream Gone Awry

In the late 1990s, the global direct selling giant Amway had to contend with increasing doubts regarding its survival in India. The company that had become synonymous with network marketing or multi-level marketing (MLM)[1] the worldover was beset with problems. Media reports were quick to point out Amway's failure to sell the basic concept of direct selling to the Indians. Though the company managed to rope in a substantial number of distributors, the attrition rate was at an alarming high of 60-65%.

Most of the products that the distributors bought, they consumed themselves. Estimates put the percentage of self-consumption at almost 50-60% of the total volume. (There were rumors that some distributors enrolled just to take advantage of the distributor's margin of 18-30%).

In the initial stages, when trials were the only criterion, this worked well. However, this self-consumption did not translate into repeat purchases. This was because the percentage of 'active' distributors at any given point of time remained at a low level of 35-40%.

Many people who joined in the initial frenzy returned the product kits within the first month. Company sources claimed that the returns constituted just 1% of the total strength, but rivals and ex-employees put the figure at over 5%. Of the total distributors, only about 10% showed reasonably high levels of activity.

To top it all, Amway was burdened with an image that had little basis in fact. Its products began to be perceived as being very expensive and meant only for the premium segment. This was identified as the single biggest reason for the high attrition rate. What was overlooked was the fact that almost all Amway products were concentrates.

When used in the proper diluted form, the cost per use of each product worked out to be at par with (and in some cases, even lower than) the nearest competitor's products. For instance, the product named LOC (priced above Rs 320 for a 1-liter pack), when diluted gave around 165 bottles. The cost per usage was thus very low. Either the distributors were themselves not aware of this fact, or they were unable to communicate this to the customers. Since the

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[1] The MLM system utilized a multi-tiered salesforce of independent distributors - none of them employees - to sell products directly to consumers. These distributors earned commissions at two levels - the first, the difference between the distributor's cost and selling prices, and second, a proportion of the commissions earned by other distributors recruited. MLM thus completely bypassed the retail chain and cut costs of the traditional distribution system. A typical MLM setup began with the recruitment of a group of distributors who paid a registration fee and picked up product kits. Once these goods were sold, the distributors were given the next lot. The more a distributor sold, the higher the commission. Besides selling the goods, the distributors were also expected to hire new distributors for selling the company's products. The recruiting distributor also got an extra commission based on the sales effected by the distributors hired by him/her. As for the company, the compulsion on the part of the distributors to recruit more and more distributors led to its network penetrating very deep among the consumers. Also, the actual cost of marketing never exceeded 25% of the selling price on an average. As the distributor's primary commission was a mark-up on the selling price, the only outgo for the MLM team was the commission, which averaged at 9% and at peak levels stood at 21%. These distributo in turn, paid commission to the 'down-the-line' distributors out of their own earnings. Fast moving consumer goods targeted at niche markets such as specialist cosmetics or premium fragrances were typically the most suitable for a MLM setup. Also, if the products were portable and needed to be demonstrated-vacuum cleaners for instance the personal interaction that MLM facilitated, helped a lot. Products, which were neither purchased very often nor very rarely, and were neither too expensive nor too cheap could be marketed well through this system.

distributors themselves were unsure about the price-value equation of the products they were selling, they could not effectively convince the consumers either.

Amway also had to contend with customers complaining of poor customer service on the part of the company. Analysts commented that as long as the volume of products that moved through the network was high, network market such as Amway were satisfied.

Even though customers complained of the lack of services, the company deemed it more beneficial to go for higher salesforce motivation programs rather than undertake customer service initiatives. This was largely due to the fact that the company was almost never involved directly with the end-consumers and the sales volumes were the end of all discussions.

Making of the Dream

Privately held by the DeVos and Van Andel families of US, Amway, short for American Way, was set up in 1959. Amway and its publicly traded sister companies supported 53 affiliate operations worldwide. About 70% of Amway's sales were outside North America.

With over 12,000 employees around the world, Amway was renowned for its strong R&D centre in Michigan, which had 24 laboratories. Amway was present in over 80 countries and its manufacturing plants were located in US, Hungary, Korea, China and India. The company had over 3 million distributors across the world. Besides its direct selling portfolio of 450 products, Amway promoted around 3,000 products through catalogue sales[2] as well.

Amway had received permission from the Foreign Investment Promotion Board (FIPB) in 1994, to invest $15 million in the Indian operations and to source products from India. The company began with identifying small and medium-scale companies to source its products from. Commercial operations began in May 1998 with a partnership arrangement with Network 21, a company, which acted as a support system and assisted in organizing training, seminars and meetings.

Besides its extensive internal research efforts before entering India, Amway also conducted market research through agencies such as Pathfinders and ORG-MARG. Though prior to its entry into India, Amway did recognize the need for a special India-specific pricing strategy and eventually there were just a few marginal cuts in the prices, which were still almost 20% higher than those of the competing FMCG products.

The company began with appointing distributors in the country by adopting the 'NRI sponsored' by getting NRIs to rope in their friends/relatives in India into Amway distributorship. These distributors were duly provided with starter business kits containing products, training material, and sales literature. The company's introductory product range

[2] A sales catalog refers to a list of products/services provided by companies. These are sent to selected addresses. The consumers then place the orders based on the information provided in the catalog. The global catalog sales market stood at $ 87 billion in 1998.

comprised four home care and two personal care products, made available to distributors at the Amway Distribution Centers (ADCs) or through tele-service.

A significant portion of Amway's investment was on transferring state-of-the-art technology and processes to third-party manufacturers from the small and medium-scale sectors for the indigenous production of its product range. Amway assisted its three manufacturing partners, the ISO 9001-certified Jejuplast at Pune, Naisa Industries at Daman, and the Hyderabad-based Sarvotham Care, to achieve benchmarking levels of product development, engineering and quality.

These facilities were equipped with advanced machinery and world class technologies for production, packaging, and water filtration. Amway scientists and engineers at the India Technical Centre provided assistance in the processes of technology transfer and quality control. The company supported its independent distributors with five full service ADCs at New Delhi, Bangalore, Chennai, Calcutta and Mumbai.

ADCs operated as product selection centers for Amway's entire product range and as training centers for distributors. Amway appointed Sembawang Shriram Integrated Logistics, and Mumbai-based First Flight Couriers as its total logistics partners for home delivery of Amway products across 151 cities in the country.

Amway's domestic operations fell into five areas - personal care, homecare, nutrition, cosmetics and home tech. The company introduced India-specific products, in pursuance of its go 'glocal' philosophy. Also, for the first time in its history, Amway utilized media advertising to promote its products.

In the beginning, Amway had to deal with the negative attitude of many Indians to direct selling. Direct selling was typically seen as unwelcome, an intrusion into one's privacy. This was true to a certain extent. Sales people often used a 'hardsell', the product quality was sometimes poor and most importantly, the salespeople were poorly trained and lacking in motivation.

However, Amway changed all this radically and a significant change was brought in the field. Amway was able to break the time tested and traditional distribution set-up of manufacturer-distributor-retailer-consumer. Within 11 months, Amway became the country's largest direct selling company and after two years of the commercial launch, Amway's distributor base crossed the 200,000 mark.

Its strengths were clearly manifested in the aggressive product launch plans, its products which claimed to exceed consumer expectations, the 'money back' policy, and a distribution network spread across 26 cities servicing more than 306 locations. In 1999, Amway reported a sales figure of Rs 100 crore. Reacting to reports stating this as a 'below-expectations' figure, company sources commented that the concept of network marketing had not been a constraint for Amway. The then CEO & MD Bill Pinckney commented, "The direct selling model is not new to India.

What's new is the structure. And while it's true that consumers do not rush in to buy an Amway product, network marketing works as a low-key approach and evolves over time." However, the problems like distributor attrition, a false 'premium' image and customer dissatisfaction soon began surfacing. Amway could not sit back and let competitors like Oriflame, Avon and Modicare take advantage of its weaknesses.

Picking Up the Pieces

Amway soon woke up to the reality that it had to take steps to put its MLM machinery back to the track. For this, it had to first identify where it had gone wrong. Amway realized that like most direct marketing networks, it had hoped to leverage the global promise of the lucrative business opportunity for its distributors. Though this made sense in the developed consumer markets of the West, in India, distributors also needed to know the value of the products they were selling, this aspect was overlooked by the company.

One of the first 'corrective' measures it took was putting stickers on its products, which clearly indicated the number of usages very clearly. For instance, it introduced stickers on the packs of its car-wash solution to emphasize the number of washes that a consumer could get per bottle.

The idea was to firmly establish the fact of Amway's products being highly concentrated and with very low per usage cost. This practice was later expanded to other products as well. Amway realized that a complicated market such as India needed a focused approach for each of the product categories. To strengthen its product focus, Amway set up strategic business units.

Thus, though Amway had centralized marketing of all products worldwide, its Indian arm appointed category managers for individual product categories. Amway also decided to focus on the market in the smaller towns. Quick expansion of the distribution network to smaller towns was identified as a major tool to offset the impact of attrition.

The gameplan was to reach consumer homes all over directly by making the current distribution system more effective and decentralized. In early 1999, Amway realized that servicing distributors in 160 cities through its 13 locations was curbing growth due to unavailability of critical infrastructure like networked banks, toll-free phones and multi-service courier companies. The cost of making long-distance calls, the courier companies' refusal to accept cash and the time taken to deliver products were the three major hurdles that Amway faced.

The typical direct selling system comprised a central warehouse located close to the manufacturing locations, which sent the products to regional hubs like the metros and then on to the branch offices. As opposed to the traditional FMCG delivery setup, where the distributors or retailers carried inventory, here it was taken care of by the company warehouses and their region-specific distribution centers. Long distance calls and courier companies took care of distribution in cities where the company had no presence. However, with these facilities not being upto the mark, Amway decided that it had to effectively handle these issues and rapidly expand its offices in order to capture the growing direct selling clientele in the country.

The company also decided to give incentives to cost and freight agents (C&FAs) who could deliver parcels in the same city within 48 hours outside, in about 72 hours. Amway then planned to tap unemployed youth in smaller towns by subsidizing the entry fee for the starters' sales kit. Amway also offered to finance the sales kits through interest-free loans. It even gave free kits to visually impaired youth in Rajasthan. But media reports were skeptical about Amway's strategy to use localized strategies for its global products.

This 'gamble' as Amway's biggest test case the world over, they remarked. In a bid to make its products more affordable, Amway introduced value-for-money 'chhota (small) packs' in December 1999. The sachets significantly boosted sales. Sachets had two advantages - they helped Amway shake-off the 'super-premium-products-only' tag, and with their lower prices invited consumers from lower income levels to try the products. This was expected to brand penetration.

The most significant of Amway's Indian initiatives were its 'Indianisation' efforts. The company started printing Hindi slogan 'Hamara apna business' (our own business) on its stationery. The company's first product line, Persona, was created specially for the Indian consumers. Amway even named its expansion drives as 'Operation Gaadi' and 'Operation Ghar.'

Operation Gaadi was launched in east-Uttar Pradesh where a store was mounted on a truck and made trips to different regions on different days. The project was later extended to West Bengal as well. Operation Ghar was primarily designed to provide better service to the customers as well as to its large family of distributors. Involving an outlay of Rs 15 crore in its Phase I, Operation Ghar eventually covered 19 state capitals. Operation Ghar was designed to provide five Es - ease of ordering, ease of paying, ease of receiving, ease of returning and ease of information/operations. Amway also utilized the Internet and electronic kiosks to hook up with its distributors and give them information.

'Network'ing its Way into the Future

By 2004, Amway planned to become a Rs 1000 crore company with a physical presence in 198 centers across India. The company also revealed that by 2002, it would be selling all the 450 Amway products that were available abroad, in India.

As part of its plans to tap unexplored markets, Amway announced an ambitious expansion of its distribution infrastructure in Andhra Pradesh, which included setting up a warehouse. Once the marketing business in urban areas was strengthened, Amway planned to turn tis attention to untapped rural areas as well. Even as Amway was establishing its roots in India, it was already facing troubles abroad.

The very concept of network marketing was being threatened by the growing popularity of e-commerce and the Internet. Through the World Wide Web, manufacturers had the opportunity of engaging in one-on-one direct selling in an even simpler way. This posed a major threat to multilevel marketers. However, the real threat seemed to be the merging of telecom networks with the cable television operators.

This brought the customer directly in touch with the company through telemarketing tools. This would naturally make the salesperson obsolete. Ofcourse, given the pace of developments on the Indian telecommunications front, network marketers could take it easy for least some more years. However, Amway prepared to meet these challenges by taking initiatives to further strengthen its online presence.

With Internet usage levels increasing and little spare time for shopping, Amway believed that the Indians would gradually move to online shopping. But it thought the process would take time, as het pleasure of window-shopping and the actual shopping experience could not be replaced very easily. Amway provided graphics and three-dimensional views in the product display sections on its website. The company also planned to have portals in various Indian languages to ensure wide coverage.

The Indian MLM Journey

MLM was the fastest growing sector of the direct selling industry worldwide. In 1988, the total revenue generated by MLM was $ 12 billion, which doubled to $ 24 billion by 1998. The direct-marketing industry in India was about Rs 6 billion in 1999. This was a growth of 62% over the previous year. In the pre-liberalization era, network marketing in India was usually in the form of various chit fund companies like Sahara India. These had a system of agents, who simultaneously mobilized deposits and appointed sub-agents for further deposit mobilization.

Companies such as Eureka Forbes and Cease-Fire pioneered the direct selling system in the country with a sales force that was trained to make direct house-to-house sales. Oriflame International was the first international major to begin network marketing operations in India in 1995. This was followed by the entry of Avon India in late 1996.

Tupperware, with a product portfolio comprising plastic food storage and serving containers, also entered India in 1996. Later, Avon's decision to opt out of the MLM setup came as a major setback to the industry.[3] The first homegrown MLM major was Modicare, started by the house of Modis in 1996. Modicare's network was spread across northern and western India.

Commenting on the Indian MLM experience, S.K.Gupta, COO said, "The concept is especially relevant for India because of the highly fragmented retail structure, high brand proliferation which limits shelf-space and massive brand wars both at the trade and advertising level." The direct selling industry in India was in its initial stages even in early 2001.

Besides Amway, Oriflame Avon and Tupperware, other players included Lotus Learning, LB Publishers and DK Learning, all selling books. All the direct selling companies were members of the Indian Direct Sellers' Association (IDSA), and were bound by its code of conduct.[4] While in international markets, a wide range of products was successfully sold directly to homes, this was not the case in India.

In the mature economies, customers were fully aware of the competing products available, whereas in developing economies such as India, awareness levels were comparatively low. Industry observers commented, "The way the market is booming, no direct sale company can meet all its customers only through its own sales force."

However, MLM companies opted for direct selling as against the high visibility retail set up for competitive cosmetics players such as Revlon, aiming to get an image of exclusivity. There was some resistance to the network-marketing concept in India, as Indians preferred the security of a job. Being a salesperson in an MLM setup did not provide this security.

This hampered the company's ability to attract competent personnel. The problem was aggravated by the fact that companies treated direct selling as 'just another' promotional tool, while it was mainly about motivation. One positive aspect of network selling was that it was very convenient for women as the job could be done part-time and at hours of their convenience.

Also, the products sold also usually targeted at women, and this made it easier for the Indian women to accept the distributorships. Most Indian direct selling failures stemmed from the

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[3] Avon was the world's largest seller of beauty products operating in 135 countries. The company opted for MLM in India while worldwide it was known for its door-to-door direct selling success. Avon's decision to adopt MLM was led by the belief that in India, door-to-door salespeople were treated with a strange indifference. However, this led to Avon losing its focus on its stronghold of having a strong end-user focus. Besides, the company could not make the shift in mindset that multi-level selling required, as MLM required a strong distribution push mentality, which was very different from the hard selling to the end users that Avon was good at. Avon had also significantly lowered its advertising expenditures. Avon's Managing Director, David F Gosling said, "It was a mistake to adopt multi-level system when we weren't good at it. We soon realized that we should stick to what we knew best." He claimed that MLM had simply turned into a recruiting machine and it was difficult to ensure that the distributor down the chain was not thriving on the performance of his recruits without actually performing (selling) himself. Also, Avon held back the much-needed distribution push as the company gradually lost faith in the system. Within two years, Avon switched back to door-to-door selling, putting in place a three-tier network of beauty representatives (BR), beauty advisors (BA) and independent sales managers, which established clearer relationships between the distributor and the company.

[4] IDSA primarily focused on promoting consumers' awareness and interest. Its other main objective was to support and protect the character and status of the direct selling industry, and assist in the maintaining of qualitative standards in direct selling. Legitimate direct selling companies were thus concerned with developing, protecting and maintaining a suitable public image and ensured that their salesforce observed company as well as industry standards of performance and complied with ethical and legal requirements.

fact that they did not understand the concept thoroughly. Companies who opted for advertising in the media soon found that it had a negative impact. Advertising created a suspicion in the mind of the salesperson that the company was taking direct orders and thus, reducing commissions.

In some cases, it also negated the impact of demonstrations. Eureka Forbes handled this carefully, when it advertised not its product, but the salesperson as a friend of the customer. Advertising went hand in hand with retail, as people ought to be told where to go and get the product.

In an MLM setup, advertising was not the best way to spend money. Though this did sometimes result in inadequate product exposure, the money which would have been spent on advertising was usually diverted into training and motivating the salesperson to contact as many customers as possible.

Though Oriflame and Avon did advertise, it was mainly attributed to their being prima-facie into cosmetics and personal care, thereby involving an image factor. Amway, which was into home care products in a big way, had decided not to go in for advertising on a scale as large as adopted by Oriflame and Avon. Competition was intensifying in the industry in the early 21st century.

Amway seemed to be faring better than competitors like Modicare - a fact attributed mainly to its premium brand image. Both Amway and Modicare were not the typical door-to-door selling companies, as they sold only to customers known to their distributors.

While Amway targeted only the upper section customers, Modicare targeted the middle and the upper middle class customers. Some of Modicare's products were priced at one-fourth of the price of Amway's products. Modicare sources said this was because its products were priced for the Indian market, while Amway's pricing was more in tune with its global counterpart.

Modicare was even willing to reduce its margins in certain cases. Also, Modicare offered 100% refund even when the product had been used, unlike the 75% refund offered by Amway. This could turn out to be a cause for concern for Amway in the long run.

Source: http://www.icmrindia.org