

Research note: A study of direct selling perceptions in Australia
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Abstract (Document Summary)

Direct selling as a type of non-store retailing continues to increase internationally and in Australia in its use and popularity. One non-store retailing method, multilevel marketing or network marketing, has recently incurred a degree of consumer suspicion and negative perceptions. A study was developed to investigate consumer perceptions and concerns in New South Wales and Victoria. Consumers were surveyed to determine their perception of direct selling and its relationship to consumer purchasing decisions. Responses indicate consumers had a negative perceptions towards network marketing, while holding a low positive view of direct selling. There appears to be no influence of network marketing on consumer purchase decisions.

Full Text (3085 words)

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Introduction

Direct selling, as a method of non-store retailing, has continued to increase in popularity in Australia and internationally. This study investigated network marketing as a type of direct selling in Australia, by examining consumers' perceptions. The results indicate that Australian consumers were generally negative and suspicious towards network marketing in Australia.

Background issues

Direct selling as a method of non-store retailing has increased in importance as a marketing approach to selling and distributing goods and services. Increased research into this area of marketing has started to find its way into the literature (Darian, 1987; Granfield and Nicols, 1975). Direct selling is differentiated from direct marketing, which is defined as a relational process where products are sold directly to the consumer using direct mail, telemarketing and direct response advertising such as television solicitation. Direct selling, on the other hand, requires individual one-to-one sales presentations rather

than indirect presentations. One type of direct selling is network marketing (NWM), a type of direct selling usually performed by an independent distributor representing the manufacturer or franchisor of a product or service (Bauer and Miglautsch, 1992; Chonko and Caballero, 1989).

Network marketing has become a two-billion dollar business in Australia, with an estimated participation by 500,000 Australians. The NWM organization attracts individuals by promoting financial independence through a commission plan based on sales at several levels below the individual signing-up, perhaps four to six levels deep. The principal feature of NWM is to duplicate the efforts of the person who signed-up, by recruiting other individuals below the salesperson in an effort to sell products, and in turn recruit new salespersons. The person at the top can earn a commission based on a percentage of the sales from all those recruited, subject to the structure of the organization's compensation plan.

The study focus

Several areas relating to the method under which network marketing organizations operate formed the basis of the study. These included: pyramiding scams, aggressive selling techniques, high pressure sales, recruiting techniques and high commissions. For example, pyramid selling is illegal in Australia, since it focuses primarily on recruitment, with little training or product retailing required. The purpose of a pyramid is to earn commissions on the basis of recruitment, rather than the sale of products to consumers. Individuals at the top of the pyramid earn high commissions while those below buy products which are often difficult to resell (Stern and Grover, 1991).

Another claim under scrutiny, made by NWM organizations, is the extremely high income made possible through the method of multi-level commissions. In reality only a small percentage of individuals actually obtain this high income. Amway Australia predicts 1 per cent of its 30,000-plus distributors earn \$15,000 annually and one in 2,000 will earn \$65,000 annually (Choice, 1992). In addition, network marketing organizations are often seen as exhibiting an aggressive and pushy sales approach, which creates for the consumer an objectionable and uncomfortable experience.

The purpose of this study was an attempt to investigate consumers' perceptions regarding these aspects of direct selling in the form of NWM (Brown, 1992; Peterson et al., 1989; Smith, 1992). There have been few specific studies pertaining to consumer perceptions of direct selling as a non-store retailing activity. There is no research concerning network marketing. The study hopes to add some information regarding network marketing as a type of direct selling.

Literature review

A literature review revealed that there was no research investigating consumers' perceptions of network marketing as a type of direct selling. Two related research studies concerned with direct selling were found. The first by Peterson et al. (1989) conducted an

investigation of direct selling in the USA to determine consumer perception of this form of non-store retail purchase behaviour. They researched how consumers used direct selling to make purchases; they identified consumer characteristics, and consumers' perceptions of the advantages, disadvantages and risk in purchasing products from direct sellers. From their survey, more than half of the 988 consumers who responded had made at least one purchase of a product from a direct selling salesperson in the preceding year. They reported that convenience of shopping at home was an advantage, although sales pressure by the salesperson was seen as a disadvantage. Peterson et al. (1989) also found that risk of purchase was perceived to be greater through direct selling than at a conventional retail store.

The second study, by Wotruba (1990), researched the effect public image of the selling job has on the sales activity or inactivity of direct selling salespersons. From the 491 responses, he found a direct relationship between a salesperson's low self-image, activity on the job and job satisfaction. However, this varied between high and low performers. Overall, the salesperson's job image and job satisfaction and performance were positively related. Differences also occurred based on reaction to image, length of time on the job and general successful selling performance.

Based on the assessment of the general popular press concerning NWM and these two studies, an attempt was made to identify how consumers perceive certain aspects of network marketing as a type of direct selling in Australia. Although the research is exploratory, it could provide some explanation for several suspicions previously noted and serve as a starting point from which further research might develop. In this regard the study investigated the following areas:

- * the general perceptions of consumer purchasers and non-purchasers through NWM as a type of direct selling;
- * consumers' perceptions of product quality and price of products sold by a direct seller;
- * whether prior knowledge of NWM does or does not influence consumer purchases.

Method

After completing two separate focus group sessions in which general consumers were asked to discuss their attitudes, beliefs and perceptions concerning NWM, a questionnaire was structured reflecting their views. This questionnaire was administered during two separate periods in 1993, in the greater Sydney and Melbourne areas of Australia. Using the mall intercept method (Churchill, 1992) 490 responses were obtained. Consumers were at least 21 years of age, with female respondents comprising 66 per cent of the sample; 40 per cent of the sample were married. The sample revealed that 41 per cent purchased a good or service within the previous year through a direct seller representing a NWM organization.

Consumers were asked to respond to questions relating to their purchase of a good or service through direct selling during the previous year. Several questions were asked regarding consumer knowledge and their perceptions of the price and quality of the product they purchased. Consumers who had not made any purchase during the past year were also assessed on their perceptions. These questions were asked in order to determine a broader perspective of direct selling and network marketing in particular.

Results

The sample was divided into two groups consisting of purchasers and non-purchasers of a product or service, purchased from a direct seller during the previous year. The sample consisted of 324 females and 166 males. Using chi sup 2 to test differences between these groups no significant difference was found between genders (chi sup 2 = 2.35, df = 1). chi sup 2 was also tested for age (chi sup 2 = 3.82, df = 3) and marital status (chi sup 2 = 2.98, df = 3); in both cases no differences were found. Sample responses indicated that 59 per cent (289) had never purchased a good or service through a direct marketing salesperson. Compared to Peterson et al.'s (1989) study, 43 per cent questioned had never made a purchase, indicating that the Australian and the US studies had differences.

Consumers were asked questions regarding their perceptions, attitude and knowledge of NWM (Table I). (All tables omitted) Responses to these questions were made on a scale of 1 to 7, with 1 being "I least agree", and 7 being "I most agree" with the statement. Overall the sample responded with a mean of 3.144 indicating that consumers had a negative attitude towards network marketing. Purchasers had a higher mean of 4.056 than non-purchasers with a mean of 2.232, regarding their experience with a direct seller. This appears to be consistent with Peterson et al.'s (1989) findings. Their study reported that purchasers had a higher positive perception of direct selling than non-purchasers.

Consumer perception of NWM

In order to determine if a priority of consumer perceptions exists the sample groups were asked to indicate which advantages and disadvantages they perceived as being important when making a purchase decision. The highest percentages given for advantages were recorded for product quality and price. For disadvantages consumers considered a pushy salesperson and pressure of the moment as the most significant. These questions were identified as the independent variables and would form the basis of regression analysis to determine if any correlation exists with consumers' purchase decisions.

Purchasers and non-purchasers were asked to rate their experience of a direct marketing presentation from a NWM direct seller (Table II). Purchasers' mean was 3.564, indicating they were marginally positive towards this type of direct selling. Non-purchasers had a mean of 2.152, indicating that they were strongly negative towards direct sellers (Gillett, 1976). It is understandable that the non-purchaser perceived the pushy salesperson and pressure of the moment negatively; it is not clear why purchasers generally held this same perception. Peterson et al.'s (1989) results were opposite to these findings. Their study indicated that respondent non-purchasers had a positive perception while the experiences

by purchasers towards direct sellers were negative. Overall, Peterson et al.'s study (1989) reported that purchasers perceived more advantages than non-purchasers.

Perceptions of Australian consumers and product purchase

Australian consumer perceptions suggest there are three prominent factors (variables) that help in determining the purchase of a product from a direct seller: product quality, price and prior NWM knowledge. These were considerations used in determining if there is a correlation between the variables and purchasing a NWM product from a direct seller. Therefore, for each of these independent variables a separate product-moment correlation (Curwin and Slater, 1991) equation was organized to determine the relationship between these variables and a product purchase. The results are reported in Table III.

Consumer perceptions

Consumers were believed to have a negative perception towards NWM. In order to test this position the sample was divided into purchaser and non-purchaser responses. A t-test was used to determine if differences exist between purchaser and non-purchaser (see Table I). The result is $t = 0.564$ indicating there is no significant difference ($p > 0.20$) in the responses of both groups for these questions. The implication is a negative perception of direct selling and network marketing for both groups.

Purchaser and non-purchaser responses were again tested by comparing their responses to advantages and disadvantages of NWM methods. Using a t-test (see Table II) the result is $t = 1.76$, indicating consumers' perceptions between purchaser and non-purchaser to be significant at $P < 0.01$ level of significance. The results appear to support the contention that there are differences in perceptions of Australian purchasers and non-purchasers to direct sellers and network marketing methods. However, both groups appear to have a relatively negative perception of direct selling and network marketing.

In order to determine if there is a correlation between consumers' perceptions of quality, price and prior NWM knowledge and their purchase decisions, each of these variables (Table III) was tested separately using product-moment correlation and dummy variables to determine significance. Product quality was correlated to the purchase decision resulting in a low coefficient of 0.064, indicating little covariance. Calculated $t = 0.36$ and falls within the acceptance region of critical t , indicating that purchase is not influenced by consumers' perception of product quality. Consumer perception of product quality as a purchase decision has been previously supported empirically (Barnard, 1990; Hoyer and Brown, 1990).

Consumers' perception of price was also correlated with their purchase decision (Corfman, 1991). Using product-moment the correlation coefficient was -0.037 , indicating little covariance. Calculated $t = 0.021$ and falls within the acceptance region of critical t , suggesting that purchase is not influenced by price.

Consumers' prior knowledge of NWM as an influence on their purchase decision was then tested. The better informed the consumer, presumably the more intelligent the purchase decision (Hoyer and Brown, 1990). Using product-moment the correlation coefficient was 0.122, indicating there was low covariance. Calculated $t = 0.69$ and falls within the acceptance region of critical t , suggesting that consumers' knowledge of NWM does not influence their purchase decision.

All three variables were tested for independence and then tested together in relation with the consumers' purchase decision. Using multiple regression $R^2 = 1.7$ at $P < 0.05$. Calculated $f = 0.17$, and falls within the acceptance region for critical f ; therefore, the position that consumers' perceptions of quality, price and prior knowledge of NWM will not influence their purchase decision appear to support the contention that Australian consumers have a negative perception towards network marketing.

Managerial implications

The study investigated consumer perception of direct selling in the form of network marketing in the greater Sydney and Melbourne areas of Australia. Although there appears to be a growing popularity of NWM as a type of direct selling form of non-store retailing, the sample of Australian consumers had a negative perception of network marketing.

The Australian sample indicated that 41 per cent (201) of the 490 consumers questioned had made a purchase of some kind of good or service during the previous 12 months. Contrary to other findings (Peterson et al., 1989) the study suggests that consumers experiencing direct selling and NWM through a purchase of product or service will have a higher degree of negative perception than a non-purchaser. There is no clear explanation for this. One possibility is the objectionable interaction between the salesperson and the consumer. If this represents the actual responses of consumers, then companies determining if this type of direct selling is viable must proceed with some caution.

The study also attempted to determine if consumers' perceptions of product quality, price and prior NWM knowledge would be a positive or negative influence on their purchase decision. The results indicate the consumer does not perceive any significant advantage in this form of non-store retailing for a product purchase. Consumers' knowledge of NWM also indicated that their experiences or attitudes were negative. It is not clear, given the negative and suspicious attitudes towards network marketing, why it has grown so rapidly over the past few years. One possibility is the potential for great wealth some have obtained through NWM methods (Stern and Grover, 1991). The potential for financial independence and security and the escape from corporate redundancy have been strong inducements.

Conclusion and limitations

The study investigated direct selling and network marketing as a form of non-store retailing in Australia. Based on the apparent contradiction of direct selling growth and consumer negative perception of network marketing, an attempt was made to provide further insight into this conundrum. Results indicate negative perceptions exist for both purchaser and non-purchaser towards NWM. However, differences in negative perceptions exist between purchaser and non-purchaser, relative to advantages, disadvantages and prior knowledge of NWM. Finally, no correlation was found regarding product quality, price and prior NWM knowledge and consumer purchase decision. All of this suggests further research is needed in order to develop a better understanding of direct selling as it applies to the Australian market.

Although the study suggested possible reasons for the paradoxical nature of direct selling growth and negative consumer perception towards NWM, it is probable there are certain consumer behavioral characteristics that should be investigated further. Consumers' negative perceptions towards direct selling and NWM included suspicion of pyramiding, unfair commissions, uncomfortable atmosphere and aggressive salespeople. Further research into these psychographic attitudes could help explain this paradox. Many of the Australian findings are quite different when compared to Peterson et al.'s (1989) US study. This suggests that additional cross national investigations are warranted. Additional research could help to determine if different cultural, economic and political environments have an impact on the effectiveness of direct selling and network marketing in that marketplace.

Unlike the popularity of direct selling in Japan and Taiwan (Gabriel, 1993), Australians appear to have a basically suspicious attitude and mistrust towards network marketing. Although several prominent companies (i.e. Avon and Amway) have been operating in Australia for many years their sales (Choice, 1992) have been modest when compared on a per capita basis with other countries. The study therefore suggests that marketers should attempt to determine the reasons for the Australian perception of direct selling in general, and network marketing in particular, before proceeding with an operation in the Australian market.

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