

NETWORK MARKETING AND ITS IMPACT ON BUSINESS DEVELOPMENT

Tursunova Mastura Takhirovna,

Dept. Management and Marketing TUIT Tashkent, Uzbekistan

masturataxirovna1990@gmail.com

Khakimdjanova Dildora Kanilevna,

Dept. Management and Marketing TUIT Tashkent, Uzbekistan

dildora_1980@mail.ru

Abstract - This paper reflects the role of the actuality of the network marketing. It is a type of product distribution systems has been used relatively recently, but has already managed to establish itself and has proven its viability and effectiveness. The further development of the network marketing system, in our opinion, is of great importance in the modern socio-economic conditions of public life, since network marketing makes it possible for each person, regardless of their education, age, financial situation, to start an individual entrepreneurial activity, that is, to receive an additional source of income without significant investment and time.

Index Terms –network marketing, multi-level marketing, direct selling, pyramid scheme, traditional marketing, distributor, consumer, manufacturer.

I. Introduction

The relevance of the work is determined by the growing interest in companies that implement a multilevel marketing system and offer their clients to participate directly in the marketing process. Market and organization failures, low efficiency of generally recognized forms of cooperation to solve complex economic strategic problems have led to innovative activities in the area of network organization. The creation of non-traditional structures, the so-called unlimited enterprises, was also facilitated by interorganizational information and communication systems and the desire for autonomous forms of work. The new organizing principle has long been tested in a large-scale experiment that goes beyond industry or function. Implementation difficulties indicate that there are certain limits to "borderless" companies. There are two reasons for this: first, the organization of the network violates a set of established management principles; Second, the management principles of the new organizational structures have not yet been sufficiently clarified or tested and therefore cannot serve as a solid basis for the development of this form of organization. One of the methods of delivering finished products from the manufacturer to the end user is network marketing, a special distribution system used in the modern economy. This distribution system allows consumers to become merchants and create new networks. At the same time, all networks share in the benefits of their network and the underlying networks. This system has its origin in the United States of America and is called Multilevel Marketing (MLM) (literally translated: "Multilevel Marketing"). In business literature, it was known as network marketing.

II. General Information

In the consumer market, there are several ways to sell a variety of goods and services - products. The first method is retail trade, the most well-known, generally recognized and familiar method used from time immemorial. However, progressive in the past, it has lost some of its former effectiveness over the past decades.

In retail sales, there is no direct product promotion. Distribution is passive, assuming consumer initiative.

The second, alternative to stationary retail trade, way of selling goods on the market is direct sale, when the product (its distributor) comes to the consumer. The most famous varieties of it are traveling sales, ordering goods by mail, by phone or via the Internet, sales by coupons, catalogs, etc.

Network marketing is distinguished as a special type of direct selling. It is also called "multilevel marketing" or MLM (multi level marketing). But there is no unambiguity about the identity of these two terms. According to the author of the book "Network Marketing" David Barber, network marketing is only one form of multi-level marketing. In contrast, Janusz Scheina in the book "Network Marketing - What to Choose?" combines two methods of delivering products from manufacturer to consumer, such as direct selling and multi-level marketing. And the author of many books about MLM D.M. Fogg in the magazine "Upline" about the separate use of the terms MLM and "network marketing" expressed this way: Personally, I like 'network marketing' more, I believe that this term is the best way to interpret our activities.¹

Network marketing is a method of sales, the main difference of which from traditional forms of trade is that products are delivered to consumers by their own network by a chain reaction method. At the heart of this process, as in the case of conventional retail trade, is a purchase and sale transaction made through the oral presentation of the product and the company through the personal contact of the seller and the buyer. However, the seller, as a rule, is also the buyer, and the interested buyer can become the seller. That is, distribution takes place through consumers who receive income from this, and you can distribute not so much the product itself as information about it and the business.

The first company to use the concept of network marketing was California Vitamins. It was founded by Karl Renborg (1887 - 1973) in the USA in 1934. A few years later, it changed its name, and in 1959, two of its leading distributors split from it and created a new company, which was called "Amway Corporation" (Amway is two words - American Way - "American Dream"). Today it is a global company with over a million distributors and annual sales of over \$ 2 billion.

In the 90s, network marketing has become one of the fastest growing methods of trade and distribution of goods and services. He received well-deserved recognition and widespread not only in America, but throughout the world. In 1991, about 50% of the US population bought goods or services through the network marketing system and the number continues to grow. The industry is growing at an annual rate of 20 to 30 percent. According to some estimates, now from 4,000 to 5,000 companies in the world operate on the MLM system and turn over several billion dollars a year.

The main link in this process is the distributor (independent distributor). This term (English distribute - to distribute) originated in traditional marketing to refer to a reseller in the organization of goods distribution from the manufacturer.

A distributor is a person of legal age who has signed an agreement with the company. At the same time, he acquires the right to buy products at a wholesale price, attract (sponsor) other distributors to receive remuneration (commissions, bonuses) from the purchases of the distribution organization created by him in accordance with the incentive system adopted in the company.

A distributor who attracts another person to the business becomes his sponsor. A sponsor (or information sponsor) is a distributor who personally attracted another person to the business, or such a distributor whose account is located one level higher in the ascending line. The sponsor supervises his distributor and assists in organizing and running his business.

Distributors receive remuneration from the company for the work done. The system of rewards in a network company is traditionally implemented in two parts - marketing - a plan and a reward system. To a large extent, the success of a network company depends on the marketing plan adopted by the company.

III. Research and Discussion

There are several network marketing functions based on the theoretical foundations.

1. Cost reduction

Reduce advertising costs; Reduce distribution costs; Reduce market research costs; Reduce product testing costs;

2. Sale increase

Attract more independent distributors The added value for independent distributors and distributors

¹ https://works.doklad.ru/view/1O8uC_xzyDA.html

3. Product branding

Product and brand identity.

4. Job creation

More job vacancies except from their own main works and extra profit.

5. Viral marketing

Usually selling to relatives by face to face communication.

6. Networking

Working with new people and create a new networking.

7. Innovation

To be aware of consumer needs and keep doing market research.

8. Money supply increase

Selling more goods while taking them in sale price.

The system how network marketing works.

Traditional retail is made up of the elements of retail itself and the wholesaler that supports it. In network marketing, these structural components have been replaced by independent distributors who sell and sell products themselves. While some companies take orders from distributors and ship their products directly to them, most of these organizations prefer that the orders are placed through people who involve the distributors in the business (sponsor), and that continue until that the Distributor is authorized to work. directly through the company. Basically, the order applies in any case: the money for the ordered goods goes to the company with the order, the so-called warm market, that is, people you know well (friends, relatives, neighbors and acquaintances). regardless of where they live.

In practice, this means that people who live together also have different warm markets. As a result, independent distributors who operate side-by-side hardly ever compete with each other, which cannot be avoided with a traditional corporate organization. Another advantage of the sponsorship system is the speed of the sales partner to build their own commercial chain. This is because the distributor, who involves several people in network marketing, explains the simplest things to them that can be learned very quickly, and then the people attracted start setting up their own branches just as quickly. Any distributor can attract as many people as they want to do the same at the same time. It is shown that in the figure 1. a distributor attracted 5 people, which in turn attracted 5 people in this case, the distributor's business will be developed as follows:

1. In the 1st level, there is only distributor A.
2. At level 2 Any second level attracted is attracted by 5 people and, therefore,
3. There are already 25 people at third level
4. And so on. It should be noted that the number of elements in each subsequent level of the network exceeds the total number of elements in all previous levels combined. The dynamics of business growth being considered in science is known as the geometric progression or exponential growth curve and is one of the most important bases. If Distributor A only adds one new member to the business each month, and all Distributors in his group are doing the same, then the business growth dynamics in that industry during the year will be as follows, as long as the newly acquired in network marketing.

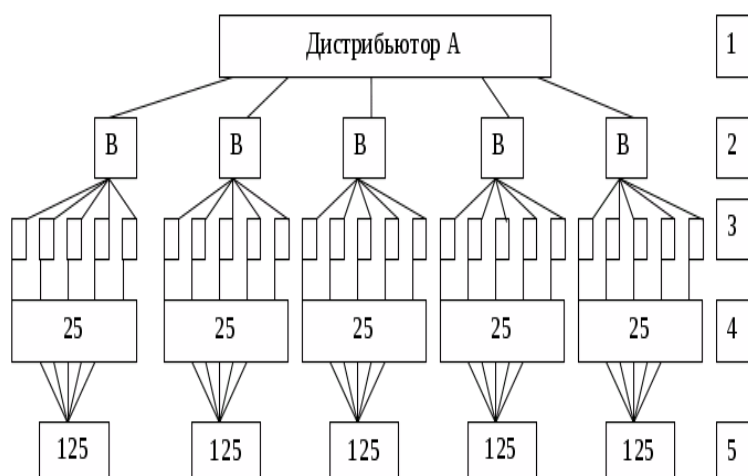


Figure1. An example of a branching distribution network in which each attracts only five people

Regarding the growth of the group size shown in the table 1, there are two characteristics to consider:

1. Distributor A only recruited 12 people to the company (no one else in their group attracted more than 11 people), and each Distributor attracted only one new member into business per month.

2. Until the 10th month came, the growth dynamics was quite slow, but then went to thousand Even if the dropout rate in that group reaches 90%, by the end of the year there will be around 400 group member's distribution A. It is important for to understand that it takes time for exponential growth to reach remarkable levels. However, many people give up sometime after the third month because their group size of only reached eight people at that time. Table 2.2 shows, however, that it is completely normal to have "only" 8 people in the group, resulting in 4,096 people in 4,444 by the end of the year. Another critical phase in the business can be 6 months, as the distributor manages six months to reach the level of "only" 64 employees. However, with it can be seen that 64 people after six months of work.

Thus, the MLM system of one of the foreign companies involved in the production and sale of pharmaceutical and cosmetic products consists of two parts: a career ladder and a mechanism to distribute the income from sales made on the basis of Discounts. in the purchase of goods. from a company for further distribution, commission sales, rewards (bonuses).

Here are some other factors contributing to its popularity today: 1. Additional income People live much longer than general. The average life expectancy of has increased significantly over time. Pension plans and pension plans are, in most cases, underfunded. Therefore, there is a growing need to generate additional income for the older generations. It is also popular with stay-at-home parents looking to contribute to their total household income.

2. Activity / Commitment It is not just about income. People are much healthier at their advanced age of than they used to be. Joining an MLM company gives you the opportunity to live a full life in your later years. Again, the same logic can be applied to stay-at-home parents.

3. Balanced Compensation Structure Unlike typical corporate jobs, this business model has no scope to overpay or underpay for any reason. Everything you earn is in direct proportion to your efforts.

4. Unprecedented growth MLM has become as legitimate and popular over time as the franchise. It is being viewed with renewed interest. You have more potential for growth and awareness today than ever. Some might say that Network Marketing has reached a stage of maturity.

Restrictions on Networking Business

To summarize, we can say that the MLM structure (marketing network) is really a pyramid. But a commodity pyramid. It should always be based on some product or service and smart, honest, active people united by a common goal, whose commercial success is due not only to their personal achievements, but also to the achievements of other participants in the pyramid.

We can say that the law of the commodity pyramid is the mandatory presence of a product or service in it. As soon as the product disappears, the law of the pyramid is violated, its content and essence change, it immediately becomes illegal. The presence of a product in the structure of an MLM business gives it real value, which makes it moral, ethical and legal. The absence of real values in the pyramid is an elementary fraud, deliberate deception and nothing more.

The concept of an MLM business can be implemented when promoting goods of foreign companies to end consumers, which are distributed abroad through the MLM system. The second case of implementation is the use by wholesale commercial structures specializing in the supply of specific types of goods for the distribution of which MLM models have not yet been created. Nowadays, they often give products to small shops, even to individual merchants selling on the street from stalls.²

The mechanism of such a business is extremely simple: the entity who took the goods for sale, after the agreed period, returns the agreed amount of money to the owner of the goods. It is quite possible that a wholesale organization can increase the total sales volume, and, consequently, its income, if it develops its system of delivery of goods for sale to sales structures built on MLM principles. That is, when building such systems, it is necessary to calculate and weigh everything well, to determine the hierarchy of commodity pyramids, the interdependence and interdependence of their levels, the conditions for rewarding participants in the promotion of goods to the market, etc.

Table 1. Business growth, when each distributor attracts only one new member to the business per month

MONTH	NUMBER OF DISTRIBUTORS AT THE BEGINNING OF THE MONTH		NUMBER OF NEWLY RECRUITED DISTRIBUTORS		TOTAL NUMBER OF MEMBERS IN THE GROUP
1	1	+	1	=	2
2	2	+	2	=	4
3	4	+	4	=	8
4	8	+	8	=	16
5	16	+	16	=	32
6	32	+	32	=	64
7	64	+	64	=	128
8	128	+	128	=	256
9	256	+	256	=	512
10	512	+	512	=	1024
11	1024	+	1024	=	2048
12	2048	+	2048	=	4096

Financial Pyramids And Mlm From A Shariat Position

Network marketing, or MLM, is commonly referred to as the sale of material goods and services through a network of independent (non-state) distributors - sales agents. Typically, this technology is used by manufacturers of goods that are not in great demand and have a significant margin. To ensure a high level of sales, traders are obliged to become consumers of the product themselves, and they are also encouraged to impose it on the circle of their friends and relatives.³

There is no unequivocal prohibition on engaging in MLM for Muslims (of course, haram goods or services should not be the object of sale and purchase). However, it should be remembered that when concluding a transaction with a client, he must disclose all the nuances, one cannot conceal certain terms of

² https://works.doklad.ru/view/kTRF_-s6To0.html

³ <https://islam.global/obshchestvo/ekonomika/finansovye-piramidy-s-pozitsii-shariata/>

the contract. Those. there should not be a single hint of deception. Alas, many existing network marketing systems do not fall under this limitation, and therefore it is better for Muslims to avoid participating in them.

A hadith of the Prophet Muhammad (saw) was transmitted from Abu Hurairah (r.a.): "There will come a time for everyone when people will stop caring about whether the blessings are allowed (halal) or forbidden (haram) he will acquire. "

It is also important to remember another statement of the Messenger of Allah (saw): "The buyer and the seller continue to be free in their choice until they part with each other. And if they were both truthful and clarified, their deal will be blessed. If they hid (something) and lied to each other, then the benefit of their deal will be destroyed. "

The greatest risk for Muslims from network marketing is that it carries the risk of waste. Israfa. Having succumbed to the eloquence of a seller or an agent, a believer can buy a thing or service that he does not need at all, and also significantly overpay for it (although one could direct this difference to buy something more necessary for himself, his family, or donate to those in need).

Are pyramid schemes haram?

Unlike network marketing, the attitude towards financial pyramids in Islam is unambiguous. After all, this phenomenon is nothing more than outright deception, misleading other people, bringing tragedies to families, destroying a person's peace of mind.

Also, Muslims also fall into this fast money trap. Moreover, not only in the role of victims, but also as co-organizers of the pyramids. People see that the system is developing, gaining momentum, they are in a hurry to invest their funds there, sometimes they even take loans for this, falling into the riba sin, introduce their relatives to the murky scheme.

However, only those participants in the pyramid who are in the upper part of the pyramid receive profit, but their wealth is formed at the expense of the losses of others who are lower in the chain of people.

It is forbidden by Islam to set such a goal and build an appropriate scheme for many reasons, because here a person oversteps the boundaries of what is permissible. In this type of "business" there is a probabilistic nature of income generation, this is unearned earnings, in search of clients, a pyramid participant often cheats. To recoup his investment, a person is forced to involve more and more people ... Thus, he aggravates his sin.

A person with a strong iman is able to show will, fortitude and protect himself from the desire to enter financial pyramids. May the Almighty give all of us the wisdom to learn from the mistakes of others, not our own, and save us from the forbidden!

Conclusion

Today, multi-level (network) marketing is well developed, has a history and has a good perspective for the future. Many companies in the USA, European countries, as well as Russia use the MLM system for the effective development and promotion of their business.

The advantages of network marketing include social effect, democracy and humanism. This is manifested, first of all, in the absence of hierarchy, restrictions on the age and convictions of employees, in a free work schedule, in softened forms of competition between distributors.

Also, the social effect can be attributed to the expansion of public consciousness due to the spread of the practice of psychological studies, presentations, popularization of the benefits of a healthy lifestyle, and in the conditions of Uzbekistan - also the education of many people in the market spirit.

The product of MLM companies is, as a rule, of a fairly high quality. It is achieved by saving money on advertising, renting premises, floors, warehouses and offices, as well as minimizing the number of intermediaries, which saves the company money for deep scientific development of the product and its modernization. This is all an economic benefit.

The disadvantage is that network marketing has low prestige. Respect for the profession of distributors has not yet matured in Uzbek society.

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