

Market Multiplication, Direct Marketing and the Marketing Mode of the Health Food Industry

Zhihui Wen & Junyi Wan

College of Economics and Management, South China Agricultural University

Guangzhou 510642, China

E-mail: wzhlip@163.com

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Abstract

The market multiplication theory includes the multiplication of market, time and benefit, and the direct marketing is based on this theory. Health food industry can adopt the mode of direct marketing, because the industry possesses characters of low production cost, high circulation cost and lots of users. The marketing mode, product promoting method and employee salary system of Amway Company which manages businesses including the health food production can be references for the direct marketing enterprises in the health food industry.

Keywords: Multiplication, Direct marketing, Health food industry, Marketing mode

With the development of social economy and the improvement of living level, human consumption concept and health concept have been changed largely. Customers' consciousnesses of self-health are increasingly strong, and their demands for the health food are higher and higher, which offers an important chance for the development of the health food industry. The health food market of China is a market with large developmental potential. But the problems such as the low level competition, the emphasis of advertisement and the bad industrial reputation seriously restrict the healthy development of the industry.

The health food industry generally adopts the sales mode of channel distribution, which operates through two advertisement operation modes including manufacturer advertisement extension and regional packaging extension, and has serious problems of sales management and channel efficiency. With the changes of exterior marketing environment including gradual improvement of national policies, gradual maturations of the media and the public, the subdivision of the market and gradual sense of customers' behaviors, the traditional marketing mode in the health food industry is facing serious menace and challenge. The change of competitive structure also makes the validity of the present marketing mode of the health food industry become worse and worse, so to obtain long-term development, enterprises must quest for new developmental mode. Therefore, the direct marketing based on the market multiplication theory many be a good marketing mode.

1. Analysis of the market multiplication theory

The multiplication theory mainly studies the problem that how the factors of people, thing and matter multiply under the situation of geometric series, and when it is applied to the market, a new branch, the market multiplication theory is formed.

The market multiplication theory studies that how to rapidly enlarge the product market through the geometric series theory in the process of product distribution, and how to change the traditional all levels retail system into a new marketing system taking the human relation as the network base. The market multiplication can be divided into three multiplications from three aspects.

1.1 The multiplication of the market

The direct marketing market is established based on the geometric series principle of the multiplication theory. Supposed that one direct marketing company develops its direct distributors, and the first class develops m direct distributors which respectively develop m second direct distributors, and in this way, up to the n 'th class, there are m^n direct distributors together. For example, the first class distributor of the company develops 5 direct distributors which respectively develop 5 second class direct distributors, so up to the eighth class, the company will possess $5^8=390625$ direct distributors, and up to the eleventh class, there will be $5^{11}=48828125$ direct distributors, and these numerous direct distributors themselves are a large potential consumption market of the corporate product. We can express this situation through the pyramid network in Figure 1.

In the actual multiplication process, various parts are different in the time, even some stage may be interrupted, the

developmental speed of the direct distributor is not as quick as the theoretic computation, and the development among various levels direct distributors may be not balanceable, but the multiplication of the market can be surely actualized in virtue of the market multiplication theory.

1.2 The multiplication of the time

The direct marketing can multiply time, which is not the increase of time absolutely, and it means the time which completes same works is fully induced comparing with other methods, and this is a sort of reverse multiplication.

Supposed that the company propagandizes its products to m customers, and if n flacks adopt the one to one mode to introduce the product and the drumbeating to one customer needs t minutes, so the work needs $t_1=mt/60$ hours, i.e. $mt/480$ days (8 hours in a day). And if customers can propagandize each other and the drumbeating time is t minutes, so it needs nt minutes for that n customers propagandize to n customers simultaneously, and up the $\lceil \log_n^m \rceil + 1$ (or \log_n^m , if $\log_n^m \in Z$. Here, $\lceil \cdot \rceil$ is the symbol to take integer, for example $\lceil a.b \rceil = a$), the drumbeating will exceed m customers, and the time to complete this work is $t_2 = (\lceil \log_n^m \rceil + 1) \bullet nt$ (or $\log_n^m \bullet nt$) minutes, i.e. $(\lceil \log_n^m \rceil + 1) \bullet nt / 60$ (or $\log_n^m \bullet nt / 60$) hours. Now, if $m=3000$, $n=5$ and $t=20$, so we can obtain $t_1=25$ days and $t_2=6.67$ hours. From that, we can see that under same workload, the multiplication of the time can fully reduce the work time, and only 6.67 hours can complete the workload that adopts the one to one mode and needs 25 days. Because the company uses the time of all levels direct distributors, and it saves the work time of employees, and this sort of high efficiency operation can make the company occupy the market and rapidly spread the product in time.

1.3 The multiplication of the benefit

The multiplication of the benefit includes the multiplication of company benefit and the multiplication of direct distributor benefit. One of main objectives of the company is to continually extend the market of the product, increase turnover and bring larger benefits for the company in virtue of the effective marketing measure. The multiplication of the company benefit means that under the changeless sales profit margin, the company multiplies its profits by means of the market multiplication and brings the multiplication of the profit. The direct distributor benefit is multiplied by means of the number of “pyramid network” or the multiplication of the sale. The increase of the lower class direct distributor or its performance can induce the increase of the upper class direct distributor’s sale proportion, performance encouragement or the corresponding rewards according to the regulation of the company reward system, so various class direct distributors imbued with enthusiasms driving by the benefits, and this sort of developmental speed of “snowball” is quicker and quicker, and corresponding economical benefits increase more quickly by degrees.

Supposed that the year sales profit margin of the company is changeless, so there are two situations, one is that the sale base of the company is large, and it is $b_1 = b, b > 0$ in the first year, the increase rate of the year sale is r , so the sale in the n’t h year is $b_n = b(1+r)^{n-1}$, the total sale in n years is $s_{bn} = \frac{b(1+r)^n - b}{r}$ ($b > 0, n = 1, 2, \dots, \max n$), and the other is that the sale base of the company is small, but the performance can be multiplied, the sale in the first year is $a_1 = a (a_1 \neq 1)$, the sale in the second year is a^2, \dots , so the sale in the n’t h year is $a_n = a^n$, and if $a_1 = 1$, so $a_n = q^{n-1}$, and the total sale in n years is

$$s_{an} = \begin{cases} \frac{a(1-a^n)}{1-a}, & a \neq 1 \\ \frac{1-q^n}{1-q}, & a_1 = 1 \end{cases} \quad (n = 1, 2, \dots, \max n).$$

To clearly describe above principle, we suppose that $b = 200$ (b_1 is far bigger than a_1 here), $r = 10\%$ and $a_1 = 2$, so $b_n = 200 \bullet 1.1^{n-1}$, $s_{bn} = 200 \bullet 1.1^n - 200 / 0.1$, $a = 2^n$ and $s_{an} = 2^{n+1} - 2$. From $n = 1, 2, \dots, \max n$, we can get the table 1.

From Table 1, we can see that when $n=1$, b_n is 200 times than a_n , and when $n=10$, a_n firstly exceeds b_n , and when $n=11$, $s_{an} > s_{bn}$. Under above two situations, the values of a_n, b_n, s_{an} and s_{bn} change with the change of n . But even if the initial value of b_n is far bigger than a_n , but when n is enough big, so $a_n > b_n$ and $s_{an} > s_{bn}$ can be realized. Just because of the function of multiplication, even the feeble company entering into the market later can finally share the market and even exceed former strong competitors.

2. The direct marketing is the marketing mode suiting the health food industry

The health food industry is one of the industries which grow fast, and it is also a big industry that China should further cultivate. At present, most enterprises of health food adopt the sales mode that use the channel distribution through advertisement spread, but after China came on a series of restrictive policy about the advertisement of the medicine and health food industry, the advertisement throw of this industry is seriously influenced, and with the increase of parts of false advertisements, customers reduce their trusts to the advertisement, which induce the product competitiveness depending on the advertisement marketing decrease. The actual situation is that the advertisement charges of many enterprises increase every year, but the distribution is continually decreasing, and the trust crisis of the whole industry makes the market demand decline (Arnold, 2001).

The direct marketing is to sell product or service to the customer face to face, and the sales place usually at customers or others' home and work place or other places which are different to the permanent retail shops. The direct marketing is based on the market multiplication theory. Generally, the product suiting to the direct marketing has two characters, one is the proportion of the production cost in the product price is very small, i.e. the cost of the channel circulation is very high, the other is that this sort of product can be used by every family or everyone. Because of the usual character of this sort of product, it can form continual chain consumption behavior and accordingly form the market of the direct marketing industry. Actual situation and researches indicate that the health food industry accords with above two characters. In addition, one notable character of the health food is that the demand flexibility of the purchase behavior based on the consciousness and purchase power is very large, and easy to be influenced by the atmosphere of the whole industry, and the homogeneity conflict of product function is very serious (Philip, 2002). So the health food industry can utilize the market multiplication theory to establish the direct marketing mode.

2.1 As viewed from product

The efficacy of the health food adapts to the common people, and the individual who emphasizes healthy condition and has economical ability more favors the health product. With the enhancement of the living level, the trend of public subdivision and product diversification of the health product is more and more obvious, which more possesses the usual character of product consumption and makes customers form continual chain consumption behavior. In addition, with the comprehensive of the consumption behavior, the method which only depends on the advertisement has obviously lose its force, and even for those health food brands with low known degree, the direct marketing can make them enter in to the market and save a great deal of advertisement charges.

2.2 As viewed from cost

Otherwise, the proportion of the production cost in the product price is very small, and the cost is mainly formed in the process of channel circulation. The distribution of this sort of product can utilize the marketing among people, exert the multiplication of the product distribution and explain clearly the character, advantages, benefit, purpose, usage and dosage of the product to stimulate the purchase, and this method can fully save the circulation cost and be more effective than simplex TV advertisement or planer advertisement (W.K. Chiang, 2003, p.12-20).

2.3 As viewed from channel

For the traditional sales mode, common consumables sold to the customers must pass the dealer and retail shop. The purchase of direct marketing product can implement through telephone and E-mail, and the service is more convenient and quick. Under some situations, the marketing personnel will actively connect with the customer, and especially in the busy society, this sort of service has become more popular. The emphasis of the direct marketing mode for the health food is to sell product through the mode from person to person, and this sort of direct marketing mode can continually operate without the influences of time, place and environment, and save the circulation time and cost of the product (Zhang, 2005, p.86-87). The sort of communication and sales channel among people can bring the multiplication of time and benefit.

2.4 As viewed from sales promotion

Most health foods use TV, papers or magazines to make customers know the product and produce the interest and desire to purchase it, but to really achieve the trade, the sales promotion of the terminal is very important. The direct marketing mode spreads the product by the people, which possesses the promotion character of one to one, and the multi-level direct marketing can produce the multiplication of the market, i.e. the pyramid sales network.

3. The direct marketing mode of Amway: case analysis of the health food industry

The Amway Company entered into the China backland in 1992, and firstly obtained the legal management right after passing "Administration of Direct Selling Regulations", and after that its development is very quick. In 2002, the health food brand, Amway Nutrilife, became the sales champion in China health food industry with the sale of 3 billion Yuan, and turned into the leader of few direct marketing enterprises. The special direct marketing mode,

product extension mode and employee salary system of Amway can use for references for the development of numerous health food enterprises.

3.1 Multi-level direct marketing mode

After 1998, Amway adopted the multi-level marketing mode of “shop+ direct distributor”, i.e. the distribution mode that sets up many supermarket or counter shop, all commodities mark a price and are directly sold to the customer, at the same time, engage the direct distributors extend the product and offer complete and detailed commodity information and circumspect sales methods of before service and after service. The product circulation chain of this sort of direct marketing mode is composed by two types of main group, the customer group and the direct distributor group (S. Balasubramanian, 1998, p.181-195). Its model is seen in Figure 2.

From the figure, we can see following aspects.

- (1) The product distribution can be divided into two levels distribution, and its mode is “factory- customer I- customer II”. The customer I is the direct distributor, and every direct distributor is the user of the product, so the direct distributors are a very big consumption group. The customer II is various levels director distributors’ final customers.
- (2) The customers of the distribution centers (shops) set up in China include two sorts. One is the common customer. The other is the direct distributor. And every direct distributor group corresponds with one customer group.
- (3) The ownership and the entity of the product don’t pass various levels direct distributors, but it is directly transferred from the direct distributor of the shop to the customer, which is seen in Figure 2. The direct distributor exerts the function of the company flack, agent and developing next level direct distributor.
- (4) The upper direct distributor develops several next level direct distributors, which forms the distribution channel of “chain” and makes the product radiate larger scale (Li, 2005, p.103-107). The direct distributors enter in the sales team in turn, and it will form a multi-level relation of the former and later or the upper and lower (which are seen in Figure 2). In Figure 2, from the most upper direct distributor, every direct distributor can develop his next level direct distributor (the number can be multiplied), and these lower direct distributors form the direct distributor group 2. In this way, the lowest level forms the direct distributor n . The quantity of every next level direct distributor can be several times than the upper level direct distributor, and accordingly the multiplication mode of multi-level direct distributor is formed. According to the statistics, the marketing team of Amway has increased from less than 70 thousands persons in 2002 to 180 thousands persons in 2006 (the data is from the web site of “<http://www.emkt.com.cn>”).

3.2 Product spread

The new product extension of Amway is very quick. That mainly depends on two methods. One is the exertion of traditional advertisement offensive. The other is the participation of various level direct distributors. The advertisement charge of Amway in 2001 was 70 millions Yuan, and in 2002 this number broke through 80 millions Yuan, and up to 2005, the advertisement budget of Amway had achieved 0.25 billions Yuan, and Amway retained heavyweight star to advertise (the data is form the web site of “<http://www.c2cmlm.com>”). Otherwise, the Amway Company advocates the use the product itself, and the direct distributors are the customer first, and then propagandize their experiences through public praise to their friends, which can achieve the multiplication effects of the drumbeating. At the same time, the company requests every direct distributor must have the courage to set out him and know well the performance demonstration and price comparison of the product. After the direct distributor grasps above basic sales skills, the upper direct distributor continually demonstrate the product quality, using method and product performance to the lower direct distributor or the customer, and accordingly the new product is quickly extended through the multiplication of the time.

3.3 Encouragement system

The encourage system of Amway is the direct distributor system which takes the distribution performance as the core, and the reward system more encourage active distribution and implement more encouragement measures to encourage the direct distributor to develop performance. The better product distribution performance will get higher deduction, and the direct distributor will get more rewards. When considering the reward, Amway will compute according to the whole team. For common direct distributor, his income is mainly composed by two parts. One is his product distribution performance, and he can get the income according to certain deduction. The other is the team product distribution performance deduction he develops, which is the work reward because he develops the market and cultivate the fresh man. Therefore, every upper direct distributor will try to develop lower direct distributor group and create bigger team product distribution performance, and in this way, the geometric series distribution performance increase is formed, and under the changeless of distribution profit margin, both the direct distributor and the company can obtain the multiplication of the benefit. Figure 3 is the distribution growth of the health food of

Amway “Nutrilife” in recent years. The Figure reflects the sale of the Amway “Nutrilife” presents the geometric series increase trend.

The example of Amway indicates that the market multiplication theory has extensive application foreground. In actual economical life, the example of the market, time and benefit are all multiplied according to the market multiplication theory is very few, but this example identifies the theory can achieve very ideal effects. Through the analysis of the problems of distribution management and channel efficiency existing in the traditional marketing mode such as advertisement drumbeating, we think the direct marketing based on the market multiplication theory can bring many useful references for the health food industry in the hot water.

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Table 1. The multiplication of the benefit

n	b_n	a_n
1	200	2
⋮	⋮	⋮
8	390	256
9	429	512
⋮	⋮	⋮
s_n	$s_{b10}=3187$	$s_{a10}=2046$
	$s_{b11}=3706$	$s_{a11}=4094$

Note: The values in the table are rounded to be integers.

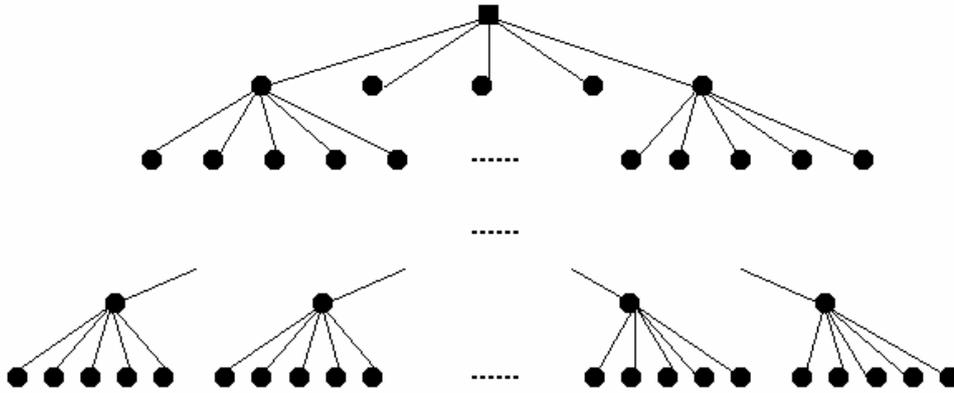


Figure 1. The Multiplication Pyramid Network of the Market

Note: “■” represents the direct marketing company, and “●” represents the direct distributor.

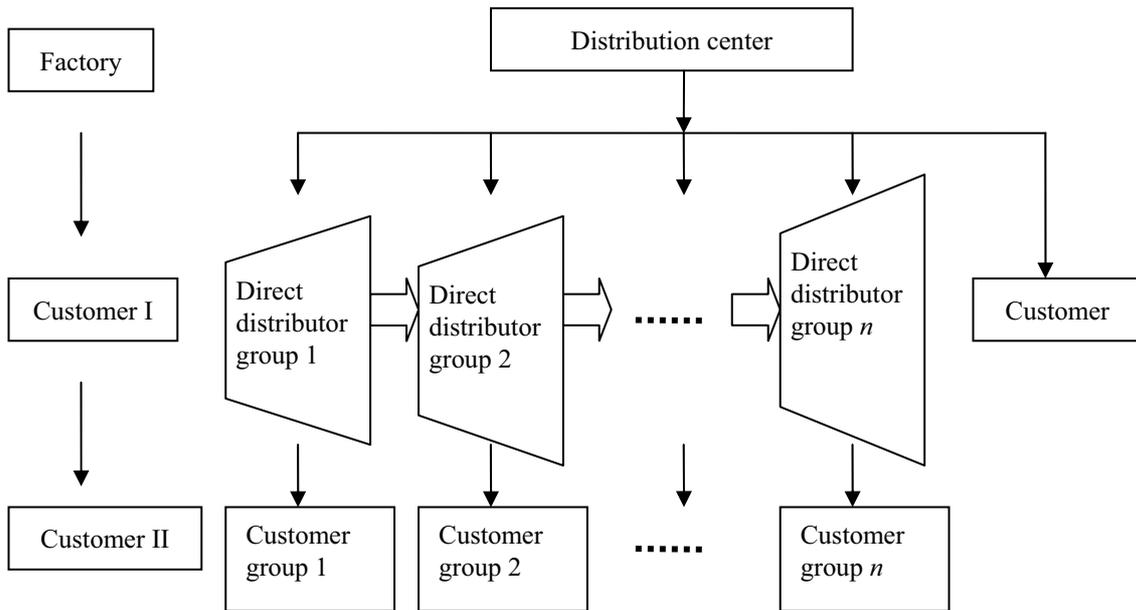


Figure 2. The Multi-level Direct Marketing Model of Amway

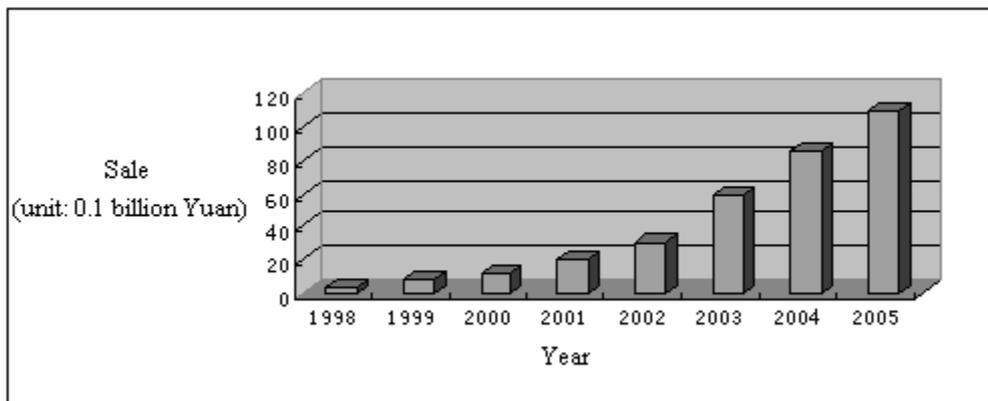


Figure 3. Year Sale Growth of Amway Nutrilife