

The Effect of Internet Users' Growth on Network Marketing

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ABSTRACT: Internet markets, like other IT applications, reduce costs and increase efficiency. Sellers face lower costs and more profits, and consumers experience better choices and cheaper purchases with more information. In this way, it seems that the growth of the online markets is an indicator for increasing competition. But there are a number of specific features on the Internet that can cause monopoly on the Internet. In this paper, the effect of Internet users' growth on network marketing was investigated. The period is from 2001 to 2016. The results of estimation and hypothesis testing using the ordinary least squares regression (OLS) indicated that the growth of Internet users had a significant positive effect on network marketing.

Keywords: Information Technology, Internet, network marketing, ordinary least square regression (OLS)

INTRODUCTION

Network marketing, if used in the right way, like other direct sales, is profitable for companies working in this way because of reduced advertising costs, reduced network distribution and sales costs, liquidity and, above all, effective face-to-face marketing. In many cases, the terms of network marketing and direct sales are used synonymously. Direct selling means selling products or services to the consumer by independent distributors individually and away from a fixed location. So direct sales are a way of distributing goods. Network marketing, if it really works to sell the goods to consumers, is a kind of direct sales based profiting plan. As a result, the goal of creating a network of distributors is a more successful retailing in the company's products. Retail is the sale and supply of goods to the final consumer, which is naturally the small amount used by consumer, these retail sales include sales to non-member consumers, as well as the distributors of the company, who purchase goods for personal use.

Now, on the eve of the third millennium, today's world is experiencing various developments in business, the global economy and, consequently, trade are influenced by two capable transforming forces, on the one hand the increasing rate of globalization and on the other hand, expanding advances in ICT are two growing forces that have affected all aspects of business today. The Internet, and consequently Internet marketing management as one of the most important aspects of ICT in business related areas, play a key role in gaining competitive advantage by businesses. It seems that the use of Internet by SME marketing managers will play a key role in the success of this business as key factors of economic development. Given the above, the need to pay attention to the factors affecting network marketing is becoming increasingly apparent. Therefore, this study examined the effect of Internet users' growth on network marketing.

Research literature

Network marketing

Network marketing is a kind of sales in which companies sell their products without advertising and without intermediaries, and customers after purchase can market the company products if they wish and receive a profit in exchange for it. Income in network marketing is achieved both for retail (personal consumption) and for sale through the complex. In network marketing, marketers sell products as "word of mouth" or "face to face" advertisements. Network marketing is a system for distributing goods and services by networks of thousands of independent distributors or sellers. These distributors earn money through the sale of goods and services, as well as the introduction and support of other vendors (who become members of their sales organization). In fact, network marketing is a new way of distributing goods or services that already existed in the market or in our surroundings. The only thing that happens is that the vendor of that product or the provider of that service uses a new method to deliver the same product or service.

In the old way of distributing goods or providing services, in order for goods or services to reach the consumer from the manufacturer, it must pass through a brokerage and, of course, handing over the goods and services, as well as the cost of advertising, increased its price. Direct delivery of goods or services through the source and producer websites allows customers to receive their goods and services directly from the manufacturer (through online purchase of goods or services from the relevant company's website), so prices are also cheaper. In this way, the money that went into the pocket of intermediaries would remain with the company of origin. This is the same money paid by the active customer commission. In fact, any of the customers who are satisfied with the goods or services provided by the company can introduce the company to new customers to use the goods or services and thus receive commission if they wish.

Due to the sharp increase in advertising competition, brands can hardly attract the attention of consumers, convey their messages and ultimately convince them to buy a product (Weilbacher, 2003). With the increasing popularity of the Internet and the growing number of audiences attracted to the Web, there is a good opportunity for marketers in this digital arena (Rappaport, 2007).

The expansion of the Internet around the world, especially in our country, is very impressive. Statistics released on the internetworldstats.com show that the number of Internet users in Iran reached about 42 million in 2012, in other words, approximately 47% of the nearly 90 million Internet users in the Middle East are dedicated to Iran. Reports indicate that the Internet penetration process has continued in everyday life of Iranians, and has accelerated in recent years. The number of high-speed Internet users in Iran is seven million, which is a significant growth compared to previous years, and more than 57% of Internet users in Iran use email every day. These are all the statistics that allows for entering the web through online advertising.

Online advertising

Online advertising refers to the use of Internet as a channel and communication tool for advertising in the Web. Since the beginning of 1995, internet advertising has grown exponentially and has become an essential element of the advertising. The reason for this is that marketers believe that the Internet is more effective than traditional media in achieving advertising goals (Li and Leckenbay, 2004). The Internet has changed the interaction between brands and consumers (Rowley, 2004). The web has made it possible for brands to provide customers with superior experiences from print and television advertising. The Internet basically has five main features that change customer experiences. These features include interaction, consumer control, customization, information capacity and e-commerce.

The first feature of the Internet is its interactivity. One of the strengths of the digital environment is that, unlike traditional tools that create one-way communication, it allows for two-way communication in a convenient and low-cost way (Merisavo, 2008). According to researchers, this high level of interaction in the online environment is one of the most important reasons for consumers to prefer internet advertising on traditional advertising (Joines et al., 2003). Consumers are passive in traditional advertising but active on the Internet.

The second feature is consumer control. Keller (2007) says companies need to know how consumers talk about their brand and use the information for finding to engage consumers in a significant bilateral conversations than sending their messages one-way. The tremendous potential of the Internet has made marketers unable to stop people talk or spreading messages, but they can only try to understand, accept, and adapt to them. McMillan and Hwang (2002) suggest that marketers who intend to develop effective marketing communications for the online environment should send the right messages at the right time and in a suitable environment for consumers.

The third feature of the Internet is customization. While television and print advertising bombard consumers with publicity messages, the Web allows marketers to provide more precise targeting by providing opportunities and tools for customizing. Customization is an important part of consumer online experience (Merisavo, 2008; Yoon & Kim, 2001; Rowley, 2004). Regardless of the greater variety of consumer experiences, customization allows brands to communicate with each customer individually. Once marketers have made marketing communications customized based on customer behavior and preferences, customers can actively choose what they like. The customization advantage is that by examining the needs of customers, companies can present offers proper to customers' demands (Rowley, 2004).

The fourth feature is the capacity of information. The Internet has the ability to generate, send and store information beyond spatial and temporal constraints. The Internet allows marketers to provide unlimited information to customers in a way that is easy to process and understand (Sheth and Sharma, 2005). Cheap information storage, information delivery as requested and instant access to other features of the Internet, makes it popular with marketers and users (Yoon & Kim, 2001).

The fifth feature is e-commerce. Joines et al., (2003) argue that the ability to buy after the message is a clear and obvious benefit of the Internet compared to other marketing channels. According to them, the Internet has provided the whole process of purchasing in a single media that is easily accessible, and customers are able to see the products and buy it instantly. This means for marketers that online advertising programs have the potential to quickly achieve goals and tracking capabilities, which can give marketers a better insight into their effect.

In addition to the benefits mentioned above, advertising on the Internet also has other benefits that made marketing managers to be interested in it. These benefits include cheap internet access, global and board access, easy posting and upgrading, high measurement and tracking capabilities.

Network marketing history

The idea of network marketing was derived from the progression formula, which was introduced by Pythagoras in sixth and by Euclid in his famous book "Preliminaries" in 3rd century.

John Paul Getty (1892 - 1976), the richest American man in 1957, for the first time announced that "I would prefer to use 1% of the effort of 100 people rather than using 100% of my effort." The idea which is called leveraging, is today the founder of network marketing philosophy.

For the first time, a bicycle company in Russia used the idea and arranged a program in which customers cost 10 rubles instead of 50 rubles to buy a bicycle, if they also introduced four other customers. But the sales of the company quickly became saturated. In Russia, the company was called avalanche and in France, it was called a snowball, and it was considered fraud 100%. Since then, many politicians, economists, and sociologists have sought to find a way to use this idea for the benefit of all.

The first company that officially began multi-level marketing activity in 1930 was the California Vitamin Company, which renamed to Nutrilite in 1939 and now sells its products through Amway Company.

Difference of network marketing with pyramid scheme

According to the Federal Trade Commission (FTC), the pyramid company is a company that gives its members the right to commission to enter new people. Pyramid firms do not sell a product and collect customers' money in one place and do not do anything with it and they are illegal in most countries of the world, including Iran, because they pay in exchange for people attraction and will inevitably collapse and when the pyramid collapses, except for those who are above the pyramid, all would lose their money.

The FTC says that having a product does not determine the legality of the company. Some pyramid companies have introduced themselves as the MLM Company and put a product on their plan to backtrack, but since their goal is not to sell the product, the price will be much higher than the market, or the delivery of product in those companies depends on the activity in their business plan, and money is lost for those who do not or cannot find a customer.

Two significant features of pyramid companies

Storing goods

The company forces customers to buy more and more goods (generally at a very high price) to earn more, even if they cannot use those goods. In this case, the peoples in the apex of pyramid make huge profits, while not offering much to the market and the products are stored in the basements.

Lack of retailing

Because of the low quality of products and their high cost, in most pyramid firms, products are distributed only among members of the pyramid, not to ordinary people outside the pyramid.

Economic justification of network marketing

Pyramid firms do not help production, and do not promote the economy of societies, and if customers fail to build their plan, they will remain empty-handed.

In an ideal space, with the help of network marketing, producing companies will be able to upgrade and improve the quality of their goods or services without the concern of selling products, but in the real world, which manufacturer is truly not afraid of reducing sales and competing with other manufacturers and thinking about promoting products and services? Competition in attracting customers is an important part of the cycle of improving the quality of goods and services.

In the era of electronics, most companies are selling online. But sometimes online sales with network and pyramid marketing are deliberately or inadvertently confusing; online sales mean the sale of goods through the Internet, but network or pyramid marketing have a very different concept.

Background

Domestic studies

Mahmoud Ameri et al., (2014) studied the effect of Internet on marketing communications. The Internet provides many opportunities like interacting and customizing, and customers and organizations can use it. One should not ignore the fact that organizations are not the only source of information. The Internet provides a huge amount of information and communication and the ability to interact with one another for consumers. The main purpose of this article is to find the answer to the question: "How can we combine the Internet with the communication activities of an organization through successful marketing, so that the synergy can be realized, especially in the publishing industry of Iran?"

Shahriar Mohammadi and Keyvan Karimi (2010) examined the effect of shopolism on improving viral and network marketing performance. The result of this study showed that the use of the shopolism - social phenomenon - is an effective factor in improving the viral marketing strategies. In this paper, the effect of a shopolism on a multi-stage process was case studied to illustrate the applicability and desirability of shopolism in designing marketing strategies. The comparison of the effects of shopolism and word of mouth advertising was the multistage process of our conclusion in this study.

Jafar Ebadi and Farnaz Eftekhari (2007) studied the structure of internet markets with an emphasis on external network effects. The results of examining the structure of the Internet markets, indicate that the existence of external network effects leads to the creation of monopolies in these markets. Studies also show that competition in Internet markets includes R&D competitions which aimed at gaining market share through innovation or maintaining leadership in the market by providing new innovations. The result of this study is the idea that monopolies created on the Internet market (contrary to traditional monopoly markets) do not reduce consumer welfare, but because of the innovations created in these markets, the welfare of consumers would increase.

Foreign Studies

Kesan and Gallo (2002) studied the function of the Internet markets and the market structure that they form by using a theoretical model. They used a two-round model. In the first round, firms are looking to understand how much they invest in new technology and the success of their investment depends on obtaining a major share of the market. The existence of network effects in this case implies that consumers are more likely to benefit for a particular firm, while they will bring less benefits to other firms.

Darsono and Huang Huang (2015) examined the viral effects of social network and media on consumer purchasing intention. This study used the Structural Equation Modeling (SEM) and the Fuzzy Qualitative Comparative Analysis (FsQCA) method for data from surveys of social network and media users (SNMs) to assess the possible effects of SNM on consumer buying intention. SEM evaluates the relationship among criteria; fsQCA evaluates the cause and effect process. Data from 36 valid variables validates the research model. The study examines those SNM users who use at least three main platforms in SNM (including Facebook, Instagram, and YouTube). The combination of Theory of Rational Act (TRA), Information Acceptance Model (IAM), perceived risk and social interaction as external enhancement components show that source credibility and social influence have a strong effect on attitudes and mental norms that lead to purchasing intention. The SEM results indicate that social integration does not have a direct effect on subjective norms. But the results of fsQCA suggest that social influence, along with perceived risk in SNM sites, affects the consumers' willingness to buy.

Stella Kladou and Eleni Mavragani (2015) have examined the general perceptions of travel destination: the online marketing approach and TripAdvisor website. This research examined the concept of general perception of travel destination from the "perspective" of tourists using their analytical reports from Istanbul on TripAdvisor website. Although there are limitations in this research, it is of interest for academic researchers and people in industry who are eager to better understand the behavior of tourists in the use of Internet.

Yawei Ren et al., (2010) have examined market segmentation in the Internet market. This paper presented a model for describing the competitive dynamics of websites in the Internet market and analyzed the sustainability of a model including a strong website and two small websites. One of the most important results of this simple model is that competition between websites in the Internet market does not necessarily lead to the destruction of small websites. Through model stability analysis, we have achieved a series of conditions that enable small websites to gain competitive advantage by using market segmentation strategies.

Almsafir (2013) examined the relationship between information technology and marketing. The main purpose of this research was to examine which type of information technology is an effective way of modern marketing. The method of this research is quantitative and the data used in this research are basic information. Data were collected by distributing the questionnaires among 283 respondents aged 18 - 30. The findings provide significant programs and concepts that help marketers to choose the optimal type of IT, in line with their specific goals to increase sales.

METHODOLOGY

The present study is applied in terms of purpose and causal research using an inductive method. Generally, in this research, the scientific method and hypothesis testing are used, which lead to the inference of the general results that indicate the application of the inductive method.

In this research, using the ordinary least squares method (OLS) in Eviews, we analyze the subject matter. To test the unit root for the reliability of the variables, the Dickey Fuller test is used to test the time series and the Phillips-Perron test to determine the time series dependency when there is a probability of serial dependency in the time series and also the Durbin-Watson Statistics (DW) was used. This statistic indicates that there is no correlation between variables and the closer it is to 2, it also shows a greater correlation between the variables and indicates that the model is significant. The White test is also used to detect the heterogeneity of variance.

Population

The statistical population of this study are Internet users in Iran. The period studied in this research is 2001 to 2016. The data have been downloaded from the Center for Statistics of Iran and the Telecommunication Company.

Hypothesis

The growth of Internet users has a significant positive effect on network marketing.

Variables

In this research, the following regression model is considered:

$$NM_t = \beta_0 + \beta_1 IN_t + \beta_2 P_t + \varepsilon_t$$

NM dependent variable: number of transactions of individuals

IN independent variable: Growth of Internet users

Number of Internet users in year (t-1) / (number of Internet users in year (t-1) - Number of Internet users in year t) = Growth of Internet users

Control variable p: population of the country

Experimental results

Reliability of variables

Before testing the hypotheses, because the research is a time series type and derived from the time series data and because in these hypotheses the ordinary least squares method is used for estimation and the necessary condition for using the linear regression model is the ordinary least squares method, the hypothesis test is the model variable reliability, first the static test should be done, for this purpose, we use the Augmented Dickey Fuller test (ADF).

Table 1. Reliability test

Critical level	Variable
0.01	NM
0.03	IN
0.009	P

RESULTS

According to the results of Augmented Dickey Fuller test in the table above, the absolute value of the t-statistics of Dickey Fuller is less than the absolute value of 5% of the critical value, which suggests the statistics of the research variables and the acceptance of the H1, but because the probability of serial correlation in these time series exists, we use the Phillips-Perron test.

Below are the results of the Phillips-Perron test on variable level:

Table 2. Results of the Phillips-Perron test on the variable level

Critical level	Variable
0.00	NM
0.044	IN
0.025	P

RESULTS

The results of the Phillips-Perron test show the homeostasis of all the variables at the critical level of 5%.

5.2 Examining the presence of self-correlation among variables (LM self-correlation test)

This test (LM) is in fact the Breusch-Godfrey test that was used to determine, the presence or absence of the waste sentences correlation This test can be performed for waste sentences of equations which are estimated by ordinary least squares method, and when $2n * R$, the table χ^2 is smaller than the $obs * R$ squared, the null hypothesis is accepted, that is, the problem itself does not depend (Abrishami, 2006, p. 540).

Table 3. Results of LM test

Breusch-Godfrey Serial Correlation LM Test : ,,,,
F-statistic, 1.987514, Probability ,, 0.163196

RESULTS

The results of the test show that according to the test statistic $F = 1.987514$ and the significance level 0.163196, and the comparison of this test level with $\alpha = 5\%$, the H_0 is accepted, so it is concluded that there is no self-correlation problem.

White Heteroskedasticity test

This test is also used to detect Heteroskedasticity, and is used for waste equations that are estimated using the OLS equation.

Table 4. White Heteroskedasticity test

White Heteroskedasticity Test : ,,,,
F-statistic, 1.191274, Probability ,, 0.321896

RESULTS

The results of the test show that according to the test statistic $F = 1.191274$ and the significance level 0.321896 and the comparison of this test level with $\alpha = 5\%$, H_0 is accepted. Therefore, the homogeneity of variance is accepted.

Model estimation

The model under study in this study is:

$$NM_t = \beta_0 + \beta_1 IN_t + \beta_2 P_t + \varepsilon_t$$

Using the ordinary least squares method, we estimate the above model.

Table 6. Estimation of the model using OLS method

Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.02841	1.10078	22.534.9	242760.5	C
0.044	2.144853	34.92439	74.90768	IN
0.000	6.082227	0.207629	1.26285	P

Prob	F		Durbin Watson (DW)
0.000	62.93	0.94	2.21

RESULTS

According to the results, the growth of Internet users has a positive significant effect on increased internet shopping and the expansion of network marketing.

In estimating the multivariate regression model, in addition to testing the significance of the coefficients of variables, the significance of the general regression model is also tested by the F-statistics. In this model ($F = 62.93$, $P = 0.000$) at 95% level, the significance of the total regression is shown.

The coefficient of detection ($R = 0.94$) shows that 94% of the dependent variable changes are explained by the independent variables mentioned in the research. In 6%, other factors affect. Also, the Durbin-Watson statistics ($DW = 2.21$) shows that there is no self-correlation in this model and the model is significant. To examine the validity of the model, first, using the Augmented Dickey Fuller (ADF) and Phillips Perron, the model's reliability was confirmed and ultimately to determine the presence or absence of self-correlation of waste sentences from the LM test, and to detect the existence heterogeneity of variance, the White test is used.

CONCLUSIONS AND RECOMMENDATIONS

In the present study, the relationship between the growth of Internet users on Iran's network marketing using was analyzed using OLS model for 2001-2016. The research results indicate a positive relationship between user growth and network marketing. Internet technology has had a profound effects on the way of doing activities, especially the business activities of the present era, have led to a new definition of marketing as Internet marketing. In the Internet marketing, the traditional of one-person-to-several-people communication model has changed to several-people-to-several-people communications model. Because of the positive effects of the Internet, companies are looking for a strategy of transition from traditional marketing to Internet marketing. These strategies succeed when they are able to correctly identify the effects of the Internet on marketing activities.

The results of this research provided new solutions for marketing and advertising managers. Contrary to TV commercials, which huge money should be paid for them, viral advertising is an efficient and relatively inexpensive advertising method because the consumers distribute them. The only cost that brands usually have to bear is the cost of providing an advertising message with strong emotional content and detailed planning for targeting the original group. The greater the emotional content of the message, the greater the chances of success and its dissemination. Viral advertising is good for all companies, even small startups that have limited financial ability, while the product should not necessarily have a superior or a distinctive feature, but it is the content of advertisement that should be distinct and surprising for the audience. Also, given that viral advertising does not have distributing cost, you can make longer advertisement, even for some minute, to more easily convince the audience.

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