

## THE INFLUENCE OF SATISFACTION TOWARD LOYALTY AND BUSINESS BUILDING OF MULTILEVEL MARKETING SALESPERSON IN ORIFLAME SURABAYA

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### ABSTRACT

*It is a fact that any product categorized as a daily need and therefore, it is considered the first product in the customer's hand. The key to such a condition is by increasing the customers' loyalty to the product. To do so, multi-level-marketing (MLM) can be implemented in a business. This research attempts to see the influence of the variables such as communication satisfaction, marginal satisfaction, and product satisfaction, Loyalty to salesperson, Product Loyalty, and Business Builder toward the customers' loyalty to the product. The author uses semantic scale differential as variable scale. The respondents as the subjects studied are the active members of Oriflame multilevel marketing company which have joined the company for at least 1 (one) year. There are 112 members taken as the sample and it uses Sstructural Equation Mmodeling (SEM) to analyze the data. It was found that the product satisfaction factor have positive influence toward the loyalty to product, the loyalty to product has also positive influence toward the loyalty to salesman and the business builders. Next hypothesis say they marginal satisfaction has positive influence toward the loyalty to product, marginal satisfaction has positive influence toward the loyalty to salesman, and communication satisfaction factor has positive influence toward the loyalty to salesman all are not accepted.*

**Key words:** Communication Satisfaction, Marginal Satisfaction, Product Satisfaction, Loyalty to Salesperson, Product Loyalty, Business Builders.

### INTRODUCTION

It is important to be able to determine the customers' needs and wants, as well as delivering satisfaction to them. Such activities are considered the key to success in a business, especially for achieving the company goals. In other words, a company should continuously attempt to maintain the production for fulfilling the customers' needs and wants. In order that this effort can be fulfilled, it is also important to take into account some factors such as the customer's sex, age, and also group preferences. One of the promising business advertisements comes from Multi Level Marketing (MLM), in which, this type of business opens provides the company with opportunity to achieve unlimited gain or profit.

It is the fact that there is always a process of evaluation before the customers finally de-

cide to buy a certain product. For example, after the customer gain the trust and commitment to such a product, they would commit to future repurchase of such product or service (Gundlach & Mentzer 1995). Pritchard & Howard (1999) also pointed out that the customer loyalty emerged as a result of customer commitment. Loyalty, in terms of "business building" in MLM, is an effort to recruit new members known as down line who would buy and then resell products offered by the company or manufacturer (Dick & Basu 1994). Thus, customer loyalty to salesperson will bring some benefits.

ORIFLAME is a Swedish cosmetics company that is currently running its business through MLM system. The main attraction of their business proposition is unlimited income or gain. In that case, direct profit is obtained

from price differences between catalog price (non-member price) which MLM member must charge to their customer and distributor price (member price) which MLM members shall pay for the product. This direct profit can go up as high as 23%. Other benefit gained from the calculation of total products that a member could sell. Monthly sales will be calculated in the invoice as Business Point (BP). The more BP a member can collect – which mean bigger sales – the bigger our income a member will gain. Yet, multiple gains are obtained when members are able to recruit other members as their down line, based on their down lines' sales performance.

Besides the description above, ORIFLAME, as an MLM company, possesses its own limitations concerning selling activities and advertising. Therefore, in its strategy, ORIFLAME hand those over to fleets of Salesperson (sales associates) and its customers. For that reason, it is essential to ensure customers' loyalty to salesperson and product as both are important factors in marketing. Direct Selling-Multi Level Marketing Company, like ORIFLAME, does not advertise their products on the market and none of its products is sold in retail or convenience stores. In such a way, it delivers the consequences of Salesperson (up line) to take major part in introducing products to market, as well as maintaining customer loyalty in the products or services offered.

From the perspective of relationship marketing, customers can build relationships with the company especially either by its branch store or salesperson as an individual. This indicates to whom loyalty is given or expressed (Beatty et al., 1996; Berry and Gresham 1986). This concept of relationship marketing is usually used in retail business. The researchers found that inter-personal relationships play a bigger role than the retailing context. Customers would prefer personal service and closer relationship with salespersons (Beatty et al. 1996). In addition, according to other proponents it is stated that loyalty to salesper-

son would eventually affect positively toward the company (Beatty et al. 1996; Grember and Brown, 1996; Maeintosh and Locksin 1997).

In another occasion, Morgan & Hunt (1994), for instance, revealed that the behavior of relationship existed between a company and its partner, that is determined by trust and commitment, will lead to positive relationship of the intention to repurchase (remain loyal). In 2004, ORIFLAME Surabaya owned active members of 5851 members; in 2005 it increased up to 6274 members or by 6.74%; and in 2006 it fell to 6023 members or fallen by 4.17%. The decline in 2006 was due to the inability of the up-line members to convince and recruit prospective new members. Most prospective members were also reluctant to buy ORIFLAME products due to the relatively high price. As a result, the company suffers from decline in sales performance due to reduced marketers/distributors/sales force.

ORIFLAME Surabaya is present on the demand of quality products at affordable prices by the society. This company provides new colors in its beauty and cosmetics products. It is in the effort to satisfy the customer in order to gain customers loyalty to the brand or product through loyalty to ORIFLAME salesperson firsthand. Ultimately, they will be able to build their own business, or often called by many MLM companies as Business Builders.

## **THEORETICAL VIEWS AND HYPOTHESIS**

### ***Multi Level Marketing (MLM)***

Multi Level Marketing is a way that companies market or distribute or sell their products by building and developing a fleet of marketers or distributors or direct sellers working independently (independent), without company or manufacturer interference. Sales target is completely determined by independent distributors and direct sales network that is developed. On the other hand, returns obtained as in discounts, or commissions or incentives is determined by the manufacturer based on stages according to the number of sales value (volume or business point-point) obtained

that is agreed by each independent distributor since they are registering for membership.

It is explained that the MLM system shortens the conventional sales distribution line. It does not require a single distributor, agent or wholesalers. Instead, the products are directly distributed through independent distributors who served as a retailer or direct seller to the customer. In this way, marketing and distribution costs can be reallocated to independent distributors with a tiered system depending on the achievement of sales targets. The actual advantage in MLM system is possible to obtain through the large volume of distribution network. Each member who sponsors other people will have the opportunity to extend profit because of growing networks.

### ***Direct Selling***

ORIFLAME is one of the Multi Level Marketing companies that market their products by using the Direct Selling system. According to Fe DSA, Direct Selling is characterized as marketing activities that involve contacts between the buyer and the salesperson at locations outside retail stores. On the contrary, Washington DC's Association of Trade and Industry defines Direct Selling as a method of distribution of consumer goods and services through personal contact (seller to buyer) that is not occurred in one/certain-fixed business location, yet preferably at home (Direct Selling Foundation, 1992). Finally, this definition was developed to the emphasis on consumer market and is now a strategy in distribution methods. In this concept, there are two important elements regarding Direct Selling, such as the face-to-face selling and flexible retailing location.

Based on the arguments above, it can be understood that Direct Selling is not a mere private communication between individuals, but it is also a mean of communication between two individuals who are potentially to sell and to purchase by exchanging information, with probability to the result to the transaction deal and profit (sales/purchases).

### ***Relationship Satisfaction and Loyalty to Salesperson***

Being trusted, competent, honest and moral salespersons can satisfy the customers as in interpersonal relationship. It is due to the fact that loyalty to the salesperson is the customers' commitment and desire to continue repurchasing especially through the salesperson. Relationship satisfaction between customers and their salespersons is a mean of social relationships which can provide an opportunity for salespersons in approaching their customers. Such social relationships could provide informal circumstances that support the sharing of information, interpersonal closeness and better understanding of both customer's and salespersons' needs (Doney & Cannon, 1997). Ven (1994) also stated that the cooperation that is built by social relationship tend to develop more quickly and efficiently. According to him, customers that are satisfied with such relationship tend to decrease the desire of ending the relationship and reduce dispute with other members. Based on such argument the hypothesis is stated as the following.

**H1:** Relationship satisfaction positively influences toward loyalty to salesperson.

### ***Marginal Satisfaction and Loyalty to Salesperson***

It is relatively difficult to prove how relationship satisfaction can affect the sales. Margin satisfaction, however, (Ruekert & Churchill, 1984) could show the customers' views on profits or benefits from having a relationship with MLM salesperson. These benefits could be the discount product prices or commission, known as Business Point (BP). Salespersons (up-line) in MLM usually help their down-lines to connect to the company, encouraging them by motivation and positive attitude, providing product knowledge training, telling how to recruit new distributors, and sharing about the way how to sell as well as the steps to success in the business.

Research conducted by Bitner, booms & Tetreault (1990) supported the notion that margin satisfaction is the financial gain ob-

tained at the time of purchase, in which trust to salesperson will have a major role since the salespersons are supposed to deliver to consumers the information they required. Thus, honesty in communication and helping-hand behavior of salesperson would have positive impact on customer satisfaction with margin and product. Thus, the hypothesis is as the following.

**H2:** Marginal satisfaction positively influences toward loyalty to salesperson.

#### ***Marginal Satisfaction and Product Loyalty***

Salespersons that are able to explain the quality of products and benefits of purchasing the products to customer will lead them to be loyal to buying the products. Customers who are satisfied by goods or service will also create their loyalty. In addition, customer loyalty will trigger the customers to repurchase the products or services that they are satisfied with (Anderson, Fornell and Lehman, 1994). Therefore, it is assumed that satisfaction has an effect on the product loyalty. Based on such argument, the hypothesis is as follows.

**H3:** Marginal satisfaction positively influences toward product loyalty.

#### ***Product Satisfaction and Product Loyalty***

According to Anderson, Fornell and Lehman (1994), if customers were satisfied by the goods or services provided, they will have loyalty. With the increased customer loyalty, the customers tend to repurchase the products or services. Fornell et al (2001) added that the customer will perceive higher product satisfaction if their feeling towards the products or services exceeds their expectations. By doing so, they will remain loyal to the same product with the repurchase action. In that case, customer satisfaction of certain products or services provided will create customer loyalty, thus the company needs to focus on customer satisfaction to encourage them to repurchase the products or services. By doing so, it will create loyalty to product (brand) or service which also can deliver much benefit to the company. So, it can be hypothesized as the following.

**H4:** Product satisfaction positively influences toward product loyalty.

#### ***Loyalty to Salesperson and Product Loyalty***

Inter-personal relationship of trust between buyer and seller effects on loyalty to salesperson (Crosby, Evans and Cowles, 1990); and it is a result of commitment and desire to continue repurchasing, especially with the salesperson. This relationship can be developed from the benefit of total shopping experience into visiting (Swan and Nolan, 1985). Loyalty to the company including to salesperson (commitment) reflects an important relationship between loyal behavior and repeat purchase/repurchasing (Betty et al, 1998, Jacoby and Kyner 1973); they also defined an existence of strong commitment to future repurchasing. Berry and Parasuraman (1991) argued that the buy-more action is an evidence of customer loyalty. The hypothesis is as follows.

**H5:** Loyalty to salesperson positively influences toward product loyalty.

#### ***Loyalty to Salesperson and Business Builder***

The higher customer loyalty to salesperson, the higher repurchase they will do as in the form of Business Builders. It is in line with the statement by Constance Gustake (1998) that the life and death of MLM business depends on the network of distributors and the consistent purchase of products. In MLM business context, the loyalty is shown by actively selling or buying products and the effort to recruit new distributors or members. In this condition, the trust on salesperson would also influence the customers' desire to remain loyal and therefore, they decide to repurchase (Kennedy-2001, Doney and Cannon-1997). Thus, when we want to increase the repurchase and maintain customer loyalty, it is necessary to improve reliability and trustworthy of the salespersons involved.

According to Holden (1990) and Kennedy (2001), the effect of having trust on the company and salesperson is loyalty. Trust could also maintain a continual relationship in a



marketing relationship between them. Finally, having gained the trust from the customers, the company can maintain the customers to repurchase. In that way, the repurchasing is measured by the willingness of customers to re-consume or reuse the products they have consumed previously (Kennedy, 200; Duncan and Cannon, 1997). In that condition, it is assumed that the customers' trust affects their desire to remain loyal and to repurchase, thus to improve and maintain customer loyalty, it is necessary to improve reliability of the salesperson.

**H6:** Loyalty to Salesperson positively influences toward Business Builders.

### Product Loyalty and Business Builders

Repurchase is defined as the desire to re-consume the products or services that have bought. The customers who have higher trust on a company and salesperson will lead customers to repurchase the products than those who have low trust (Kennedy, 2001). For that reason, loyalty is defined as a strong commitment to consistently buy or repurchase products or services in the future. Customer loyalty is proved by the act of buying more (Berry and Parasuraman, 1991).

The relationship between customer trust and the act to repurchases can be shown by the indication that the customers could depend themselves upon company's integrity (Doney, 1997). According to Ganesan (1994), trust is an essential element in maintaining long-term relationship. Customer trust toward a company enabled them to continue the relationship (Doney and Cannon, 1997).

Repurchase is measured by the willing-

ness of customers to re-consume or reuse the products that have been consumed earlier. In this study, the measurement is based on the customers' behavior to recommend consuming products or services to other customers. This Business Builders indicator is measured by the behavior to recommend products to others, provide training program for their down line and to perform consistent products repurchases. Based on the arguments above, the hypothesis can be asserted as the following.

**H7:** Product Loyalty positively influences Business Builders.

Based on the description above, a conceptual framework and hypotheses in this study can be drawn as the following.

## RESEARCH METHODS

### Population and Sample

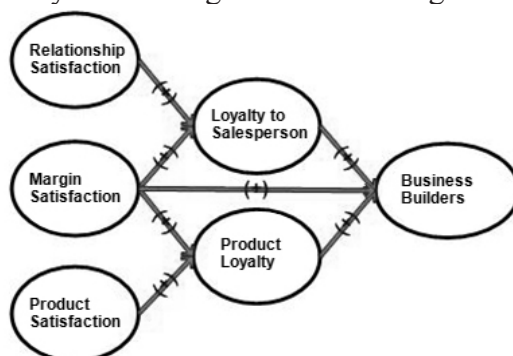
The population in this study is the active members of ORIFLAME for  $\geq 1$  year membership in Surabaya. This study uses primary data which were collected by using questionnaire. The questionnaire was distributed to the respondents to see their perceptions toward the question items as depicted in the construct. These 112 active members are taken as the sample by applying purposive sampling technique.

### Analysis Technique

The data gathered from questionnaires were analyzed by creating SEM model (Structural Equation Modeling) with One-Step Approach to Structural Equation Modeling (SEM).

## RESULTS

The following Causality Test is the magnitude



of regression coefficients for each factor.

As observed from the probability of causal direction, the results of the tested hypotheses are as the following.

1. Product Satisfaction factor positively influences Product Loyalty factor, is accepted.
2. Marginal Satisfaction factor positively influences Product Loyalty factor, is not accepted.
3. Product Loyalty Factor positively influences Loyalty to Salesperson factor, is accepted.
4. Marginal Satisfaction factor positively influences Loyalty to Salesperson factor, is not accepted.
5. Relationship Satisfaction factor positively influences Loyalty to Salesperson factor, is not accepted.
6. Loyalty to Salesperson factor positively influences Business Building factor, is not accepted.
7. Product Loyalty factor positively influences Building Business factor, is accepted.

## REVIEWS

### *The Influence of Product Satisfaction toward Product Loyalty*

In connection with the test results, it is acknowledged that product satisfaction variable has a positive and significant influence toward product loyalty. In this case, product satisfaction is the customers' demand of qualified product as expected from Oriflame. The increased customer satisfaction on products or services provided will trigger customers to

repurchase such products in the future. In addition, the perceived customer satisfaction in certain products or services will create customer loyalty. Thus, it is necessary for the company to create satisfaction by producing high-quality products that will result in repurchases.

### *The Influence of Marginal Satisfaction toward Product Loyalty*

In reference to the test results, it is acknowledged that the marginal satisfaction variable did not prove to have a positive and significant influence toward product loyalty. This is because of low marginal profits obtained by salesperson indicated by low commissions, low discount as well as low business point calculation. Therefore, marginal satisfaction factor is unable to affect their loyalty to the product, or other product loyalty is merely affected by high-quality products indicated by repurchase action.

### *The Influence of Product Loyalty toward Loyalty to Salesperson*

Based on the test results, it is acknowledged that product loyalty variable is proved to have a positive and significant influence toward loyalty to salesperson. Product Loyalty is a strong commitment of customers to consistently buy or repurchases preferred products in the future. Customers that are satisfied with certain products will tend to continue using or consuming such products. This customer loyalty triggers them to buy the product again. It also can make the company become more profitable because by having experience with

**Table 3**  
**Causality Test Result**

Regression Weights		Ustd	Std	Prob.
Factor	Factor	Estimate	Estimate	
Product Loyalty	Product Satisfaction	0,498	0,974	0,001
Product Loyalty	Marginal Satisfaction	-0,024	-0,046	0,875
Loyalty to Salesperson	Product Loyalty	1,166	1,258	0,000
Loyalty to Salesperson	Marginal Satisfaction	-0,312	-0,659	0,046
Loyalty to Salesperson	Relationship Satisfaction	-0,031	-0,066	0,799
Building Business	Loyalty to Salesperson	0,476	0,327	0,121
Business Builders	Product Loyalty	0,512	0,379	0,054
Significance Limit				≤ 0,10

Source: Processed data

a trustworthy salesperson, the customers would comfortably repurchase or try other products.

#### ***The Influence of Marginal Satisfaction toward Loyalty to Salesperson***

In connection with the test results, it is acknowledged that marginal satisfaction variable did not prove to have a positive and significant influence toward loyalty to salesperson. This is due to the attitude or behavior of the customer who would feel the benefit when using the products not because of the relationship with the salesperson, but because of the experiences of others who testify using the product. Consequently, it affects the personal relationship of trust between consumers and Oriflame salesperson in the future repurchase.

#### ***The Influence of Relationship Satisfaction toward Loyalty to Salesperson***

In relation to the test results, it is acknowledged that the relationship satisfaction variable did not prove to have a positive and significant influence toward loyalty to salesperson. This is due to the customers' behaviors that tend not to believe what is informed by sales person about the benefits when using Oriflame products, or due to the poor selling ability of the salesperson that could not persuade them as well as the lack of creating a good-quality of relationship between the salesperson and customer. These can negatively impact on the relationship between salesperson and customer, which may result in the displacement of salesperson or even a turn over to another brand product.

#### ***The Influence of Loyalty to Salesperson toward Business Builders***

Based on the test results, it is acknowledged that loyalty to salesperson did not prove to have a positive and significant influence toward business builders. Loyalty to salesperson derived from the personal relationship of trust between seller and buyer, while the business builder is the number of industrial builders as an activity in selling products and recruiting new distributors. This is due to the

relationship of Oriflame salesperson and customers concerning future repurchase that is not only affected by sales activity and recruitment of new distributors by Oriflame upline, but also by customer satisfaction when using Oriflame products.

#### ***The Influence of Product Loyalty toward Business Building***

In reference to the test results, it is also acknowledged that product loyalty variable has a positive and significant influence toward business builders, in which the product loyalty reflects a strong commitment from the consumer to consistently conduct buying again or repurchasing the preferred products. This strong commitment to repurchasing will affect product sales activities and recruitment of new distributors conducted by Oriflame upline.

### **CONCLUSION**

Based on the results above, it can be concluded as the following.

1. It is accepted that Product Satisfaction factor positively influences Product Loyalty factor.
2. It is not accepted that Marginal Satisfaction factor positively influences to Product Loyalty factor.
3. It is accepted that Product Loyalty factor positively influences Loyalty to Salesperson factor.
4. It is not accepted that Satisfaction Marginal factor positively influences Loyalty to salesperson factor.
5. It is not accepted that Communication Satisfaction factor positively influences Loyalty to salesperson factor.
6. It is not accepted that Loyalty to Salesperson factor positively influences Business Builders factor.
7. It is accepted that Product Loyalty factor positively influences Business Builders factor.

### **IMPLICATION**

Since loyalty to salesperson is proved to be an essential factor for handling the customers, it is required that salesperson should do

better improvement in handling and managing the relationship with customers, especially related to product knowledge. In addition, salesperson that is considered a beauty consultant is also required to be able to provide suggestions for the customers to choose the right product as it will lead to satisfaction and eventually their willingness to repurchase.

### LIMITATIONS

As consideration for the next study, it is suggested to use other variables or additional variables that have not been taken into account in this study which could relate to salesperson performance.

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