

**THE COMPARISON OF MARKETING SCHEMES
BETWEEN THE LIFE INSURANCE BUSINESS
AND THE NETWORK MARKETING BUSINESS
IN TAIWAN**

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Abstract

Network marketing is a new and very popular marketing channel in Taiwan. It is a network of independent distributors selling products or services to consumers. The income of a distributor in the network is determined by his/her own sales volumes as well as sales volumes of his/her network of subordinates. This scheme is very much like the way that a life insurance company operates. This research investigates the relationship of marketing schemes between these two businesses by studying and comparing sales handbooks of network marketing companies and life insurance companies together with related regulations. The similarities between them are the sales organization and the commission allocation scheme. The differences are products, personnel management, education and training, welfare benefits, and regulations.

THE COMPARISON OF MARKETING SCHEMES BETWEEN

THE LIFE INSURANCE BUSINESS AND THE NETWORK MARKETING BUSINESS IN TAIWAN

1. Introduction

Network marketing is a new and very popular marketing channel in Taiwan. According to Fair Trade Commission (1996), there are about two million people engaged in the network marketing business in 1995 in Taiwan. With total population of 21 million in Taiwan, about every one out of 10.5 people is engaged in the network marketing business. The annual sales volume of the network marketing business in 1995 is US\$ 2 billions, ranked number 6 in the world (following Japan, USA, Brazil, Germany, and Italy). However, the network marketing business was not so popular until the legislation of the Fair Trade Law and the Network Marketing Regulations in 1992.

There were illegal companies called 'Rat Club' that used the Pyramid Scheme to collect money and were mistaken as network marketing companies. Therefore, most people had a biased impression about the network marketing business until 1992 when the Network Marketing Regulations were set up. From then on, the network marketing business has been growing rapidly.

On the other hand, the life insurance companies that use a marketing scheme similar to the network marketing business have never suffered from the negative image and have been growing steadily from the beginning. No one has ever related

the life insurance business to the network marketing business even though they both employ similar marketing schemes.

Therefore, this paper investigates the relationship between the marketing schemes of the life insurance business and the network marketing business. In order to do it, marketing handbooks of both businesses were collected and studied to find out the similarities and differences between these two businesses. In addition, some top management of companies in both businesses were interviewed to get more detailed and in-depth information about the marketing schemes they applied. The similarities of the marketing scheme between the life insurance business and the network marketing business were discussed in section 2, the differences were discussed in section 3 and conclusions were given in section 4.

2. Similarities between life insurance marketing and network marketing

The marketing organization and the commission allocation scheme are very similar between life insurance business and network marketing business. They are discussed separately here.

2.1. The marketing organization

Both life insurance business and network marketing business depend upon a networked sales forces to sell products or services. Everyone who was recruited to join the sales force was supposed to recruit more people to join the sales force in addition to selling products and services. The people whom they recruited were their

subordinates and were put under their network. And they themselves were subordinates of their recruiters. Everyone is responsible for helping and managing his/her network of subordinates. In this way, the company will have many networks of sales people selling their products and services. A network structure is like the follows. (See figure 2-1)

Figure 2 - 1 The Structure of a Network of Sales People

The personal sales volume of each sales person is put together with personal sales volumes of all the network of subordinates as the total sales volume of the sales person. The commission rates are determined according to the sales volume. So the higher the level of the sales person in the network, the larger total sales volume will be and accordingly, the higher commission rate earned and the more money earned by the sales person. The details of the allocation of commissions will be discussed later.

Theoretically, there is no limit on the number of levels of a network, however, each company sets a limit on the number of levels of every network according to their marketing priority. The more levels a network has, the more commission the one on the top level of the network could earn. However, as the number of levels of a network gets larger and larger, the management span will eventually become too large for the people at the top level to handle. As a result, the one on the top can give little help to each of his/her subordinates. This will result in the inefficiency of the network of sales force which is a waste from the company point of view. On the contrary, the smaller number of levels the network has, the more efficient is the network of sales

force. But in this case the potential commission for the top level sales person will decrease dramatically and makes it less attractive to 'super sales' person. Therefore, a small company short of sales forces tends to set a high limit on the number of levels for a network in order to attract people to join the sales force.

Titles for the sales forces at different levels of the network are different from company to company. Titles in the life insurance business are more like those in the marketing department in other industries, like, district manager, district deputy manager, district assistant manager, district director, senior sales representative, and sales representative. But titles in the network marketing business are full of encouragement, like, crown ambassadors, ambassador, triple diamond, double diamond, diamond, pearl, director of direct sales, senior direct sales and direct sales.

The criteria for promotion differ from company to company but basically they are personal sales volume and the number of subordinates recruited in a specified period of time. At the entry level, in most companies, the only criterion for promotion is the personal sales volume in three months. And from the next level and on, personal sales volume, total sales volume and the number of subordinates recruited by a sales person in three to six months will all be taken into consideration for promotion.

When the sales person is promoted to certain level, he/she will be separated from his/her recruiter and become independent. From then on, his/her total sales volume will not be added to his/her recruiter's total sales volume. In other word, the recruiter will no longer enjoy the extra commission from the total sales volume of this separated subordinate and his/her network of subordinates. Of course, the recruiter

will no longer be responsible for helping and managing the separated subordinate and his/her network of subordinates.

2.2. The commission allocation scheme

The marketing organization looks like a pyramid in the life insurance companies as well as in the network marketing companies. It means that there are more sales people at the bottom level than at the upper levels. And the more difficult it is to get promotion in a company, the more it looks like a pyramid. However, the commission allocation is like a pyramid but upside down, that is, more commission is allocated to the upper level sales people and less allocated to the bottom level ones. (See figure 2-2)

Figure 2 - 2 Commission Allocation Scheme

There are usually three types of rewards and one retail profit (or commission) that a sales person in either life insurance company or network marketing company can get. The names of rewards differ from company to company, we call them selling reward, management reward, and supervisor benefit here.

(1) Retail profit (commission): There is a certain percentage of retail profits on the selling price of a product or commission on the premium of a life insurance contract. In the network marketing business, retail profits are paid to the sales person in the month following the sale. But in the life insurance business, the commission is paid in accordance with the payment of the premium (monthly, quarterly, or annually) until the termination of the payment of the premium or the end of a period specified by the

company. Some life insurance companies will pay the commission at different percentages of the premium according to the level of the sales person or the period of the payment (generally, a higher percentage for the first year premium and lower percentage for the following years).

(2) Selling reward: The selling reward is the most important component in the commission allocation scheme for both businesses. The selling reward is a certain percentage of the total sales volume of a sales person with a network of sales force. The percentage is an increasing step-function of the total sales volume, the larger the total sales volume, the higher the selling reward percentage. Therefore, the sales person with a network of subordinates adds up all the sales volumes in the network of subordinates to get a larger total sales volume and get a higher percentage rate of selling reward. The sales person then distributes the selling reward to the network of subordinates at their applicable percentage rate that is usually substantially lower. The remainder is the selling reward of the sales person who would not be able to get so much without the sales volumes of the network of subordinates. (See the appendix for an illustration example)

(3) Management reward: The management reward is a compensation for the loss of some networks of subordinates due to their promotion to an independent status. The loss of networks of subordinates means a substantial loss of the selling reward. To prevent disincentive, the management reward is distributed. Generally, there are two ways to distribute the management reward with some conditions. One is a fixed amount of money for a fixed period of time starting from the loss of a network of subordinates. The other one is a certain percentage of the total sales volume of the

network of subordinates that becomes independent, for a certain period of time.

(4) Supervisor benefit: The supervisor benefit is used to encourage the sales person to establish his/her own network of subordinates. When a sales person is promoted to a certain level, he/she is entitled to receive the supervisor benefit that is either a fixed amount of money or a certain percentage of the total sales volume or sometimes the combination of both.

3. Differences between life insurance marketing and network marketing

There are five differences between the marketing schemes of the life insurance business and the network marketing business, namely, products, personnel management, education and training, welfare benefits, and regulations. They are discussed in the following subsections, respectively.

3.1. Products

The differences between the product characteristics of these two businesses are as follows.

(1) Tangibility: The products of a life insurance company are life insurance contracts that are intangible products covering a long period of time, e.g., ten years, twenty years, or even life time. On the other hand, the products of a network marketing company are generally tangible goods, like, health foods, household items, cosmetic products, jewellery, or books.

(2) Purchasing frequency: A consumer generally buys only a few life insurance contracts during his/her life time, however, the consumer may buy health foods or household items once a month or even more often.

(3) Information availability: There are many life insurance companies in the market and each company issues many different contracts. The information on contracts, for example, coverage, benefits, or premiums are not available until a sales person gives a presentation to a customer. But there are many health foods, household items or cosmetic products in the market where consumers can easily get the product information and make comparisons between different brands.

(4) Purchasing motivation: Most people do not consider buying a life insurance contract until persuaded by a sales person, however, they will buy health foods, household items or cosmetic products whenever they need them.

(5) After sale service: A life insurance contract usually covers more than ten years and there are many activities involved during the covered period, like, the collection of premiums, the handling of claims, or the distribution of benefits. Even though there are certain departments in the life insurance company taking care of these activities, customers tend to go to the sales person from whom they bought the contract. Therefore a long term relationship exists between the customer and the sales person. On the other hand, there is generally no need for the after sale service in the network marketing business. Unless the customer joins the network marketing sales force, he/she will have no further contact with the sales person after the sale.

(6) Distribution of commission: The commission of a life insurance contract is distributed in accordance with the payment of the premium. So the distribution of the commission lasts for a long time after the sale of a life insurance contract, while the commission (retail profit) is paid to the sales person in the next month after the sale of a network marketing product.

3.2. Personnel management

(1) Qualification requirement: There are certain qualification requirements for the life insurance sales people. They have to be 20 years old, graduates from high school, and pass the qualification exam given by the government. Because there are many different kinds of life insurance contracts that are generally complicated in nature, this qualifying examination is necessary. In addition, the taxation knowledge is required for life insurance sales people. The life insurance sales people have to explain the life insurance concept to the customer so that the customer will consider buying a contract. After the customer is interested in buying a contract, the sales people have to select a suitable contract for the customer according to his/her financial condition and taxation status. However, there is no qualification requirement for the sales people in the network marketing business as long as they are recruited by a sales person in the company.

(2) Multiple companies: The life insurance sales people have to register at the government agency and can work for only one company. If they change the job or the company they have to notify the government agency. However, the sales people in the

network marketing business need not register and can work for more than one company as long as the companies they work for have no objection.

(3) Office hours: The life insurance sales people are required to follow the office hours regulations set by the company and have meeting almost every morning. The sales people in the network marketing business are completely free and are on their own. They do not even have an office in the company but the company is willing to provide a temporary meeting room upon their request.

(4) Control: Most of the time, the life insurance sales person will collect the premium from the customer. In order to prevent any misconduct, the company has close control over the conduct of the sales person. On the other hand, the sales people in the network marketing business are like an independent retailers to the company; they send orders to the company and pay when they receive the products. So the company has no control over them.

3.3. Education and training

There are many things that the life insurance sales people need to know, including the Insurance Regulations, taxation, medical treatments and characteristics of each contract. In order to make the sales people competent for their job, the company gives regular education and training programs that are compulsory for the sales people to attend. They have to pass the test following each program, otherwise, they have to attend the same program again. So the sales people just need to push their subordinates to attend the education and training programs given by the

company. In the network marketing business, however, even though there are education and training programs provided by the company, these programs are mainly for the introduction of the marketing schemes adopted by the company and the product characteristics. The sales people are not required to attend the program and no test is given following the program to evaluate the effect of the program. In other word, the education and training programs are not well organized in the network marketing business. The sales people are on their own to give the education and training program to their subordinates.

3.4. Welfare benefits

The sales people in a life insurance company are like employees of the company without fixed salary (some companies pay a minimum salary to all sales people while some companies pay the high level sales people only). They have a medical insurance, group insurance, pension plan and can get a lump sum payment if they leave after working for a certain number of years in the company. Occasionally, they can enjoy a paid overseas holiday if their performance reaches certain criteria. In other word, their welfare benefits are for both security and encouragement.

The sales people in the network marketing business have no employment relationship with the company. They are an independent sales force. However, in order to encourage the performance of the sales people, network marketing companies have many incentive benefits, like a prestigious car, a unit in a resort, a paid overseas holiday, a bonus or an insurance contract according to the performance.

3.5. Regulations

The life insurance sales people are regulated by Regulations of Sales People in Insurance Business set up by the Ministry of Finance in 1992. And the life insurance contracts have to be approved by the Department of Insurance in the Ministry of Finance. In addition, there is a minimum asset and capital requirement for the set up of a life insurance company. Generally, it is not easy to get a license to open a life insurance company. On the other hand, there is no qualification requirement and no regulation for the sales people in the network marketing business. However, each company entering the network marketing business has to register at the Fair Trade Commission. The marketing scheme and business conduct of the company are governed by the Fair Trade Commission according to the Fair Trade Law and the Network Marketing Regulations legislated in 1992.

4. Conclusions

The life insurance business and the network marketing business both depend on the networked salesforce to sell products. The sales people not only sell products but also establish and manage a network of subordinate salesforces. The commission allocation scheme is the major feature of these two business.

The larger the sales volume is, the higher the commission rate will be. The group sales volume of a sales person comes not only from his/her own sales volume but also from the total sales volume of his/her network of subordinates. So with the help of the total sales volume of his/her network of subordinates, the sales person is

able to reach a higher commission rate and hence get more commission from the company. The sales person then passes the commissions to his/her network of subordinates according to their group sales volumes and commission rates which is usually much lower. So everyone has to put his/her efforts into selling products as well as managing his/her network of subordinates.

The reasons why there is 'Rat Club' scandals in the network marketing business but not in the life insurance business in spite of their similarities in the marketing scheme mentioned above are due to their differences in other aspects of the marketing scheme that are summarized below.

(1) Regulations: There are more regulations on the life insurance business than the network marketing business. The regulations prevent the life insurance company from doing anything harmful to the consumer. Therefore, the consumer has more confidence with the life insurance company.

(2) Scale of the company: The life insurance companies are all big companies with large assets and capital. They all have good reputations and can not close their business overnight. However, there are many small companies in the network marketing business, which do not have many assets and capitals. They can close their business overnight and reopen with another name. Therefore, those who like to operate an illegal business can do it more easily.

(3) Education and training: The life insurance company provides compulsory education and training programs with evaluation tests for sales people at different

levels. The company can make sure that every sales person has the knowledge he/she needs and will act as expected. While the education and training program are not well organized in the network marketing business, the sales people do not get enough training and may not be competent for the job.

(4) Personnel management: The qualification requirement for the sales people in the life insurance company ensures the quality of the sales people. The sales people are closely monitored by the company so it is less likely for them to make big mistakes. However, the sales people in the network marketing business are not screened and are completely free. The company has no control over them at all. Therefore, it is more likely that sales people do something that the company does not like.

(5) Products: The life insurance contracts have to be approved by the government agency and need a long time of after-sale service. So the customer has more confidence with the products and has a long time relationship with the company as well as the sales people. On the other hand, most network marketing products do not need to pass any examination and do not need after-sale service. In network marketing business it is more likely for an illegal company to sell bad quality products and disappear quickly.

It is necessary for the network marketing companies to realize those differences mentioned above and make some adjustments in their operations in order to get a promising future.

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