### Chapter VIII

**Conclusions and Recommendations**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1 Introduction</td>
<td>238</td>
</tr>
<tr>
<td>8.2 An Overview of the research work</td>
<td>238</td>
</tr>
<tr>
<td>8.3 Testing of the Hypothesis</td>
<td>242</td>
</tr>
<tr>
<td>8.4 Recommendations</td>
<td>248</td>
</tr>
<tr>
<td>8.4 A) Distributors and Prospects</td>
<td>248</td>
</tr>
<tr>
<td>8.4 B) MLM Companies</td>
<td>252</td>
</tr>
<tr>
<td>8.4 C) IDSA</td>
<td>255</td>
</tr>
<tr>
<td>8.4 D) Government</td>
<td>255</td>
</tr>
<tr>
<td>8.4 E) General Public</td>
<td>256</td>
</tr>
<tr>
<td>8.5 New Areas of Research</td>
<td>256</td>
</tr>
</tbody>
</table>
CHAPTER VIII
Conclusions and Recommendations:

8.1 Introduction:

This chapter presents the conclusions drawn from the primary and secondary data collected by the researcher. The conclusions highlight the strengths and weaknesses of MLM. This chapter also includes the testing of Hypothesis, recommendations and new areas of research for MLM. The recommendations are made for the prospective distributors, for the companies and for the government, IDSA and General Public.

The section of new areas of research gives the scope for research on MLM in Pune, with new objectives and new aspects of MLM.

8.2 An Overview of the research work presents this picture of MLM:

With the wave of liberalization, privatization and globalization, the business organizations have to focus on customer lifetime value instead of a focus on profitable transactions. The business organizations are trying to reach consumers through various distribution channels. One of these channels is MLM, which makes it very convenient for the companies to make their products available to the consumers at their door-step. Not only this, but the consumer gets an opportunity to gain a share of the company’s profits by joining in as a distributor of the company. Thus MLM system is beneficial for the companies, distributors as well as the consumers. Its plus points are explained below:

**Plus points**

A) **Companies:**

1) The companies, domestic as well as Multinational Companies, want to reach the consumer who is the last link of the distribution chain. At present, the companies are trying to reach consumers in different ways
either by direct marketing or by indirect marketing i.e. through intermediaries. Their main objective is to widen the customer base. For this, MLM serves as a good distribution channel as the consumer itself is made a part of it. This increases involvement of the consumer in the selling process. This attracts more consumers towards the MLM Company. Thus, the MLM Company becomes successful in its objective of reaching more and more customer.

2) Establishment and operating expenses are less as expenses on showroom, retail shops, advertising, etc is avoided.

3) As word of mouth publicity is used, advertising expenses are less.

All these strengths are reflected in the sales figures of MLM companies. Therefore, more and more companies are using MLM as a separate or an additional channel of distribution.

**Distributors:**

a) It provides an opportunity to distributors to do something on his own without investing huge amount.

b) The distributor does not incur heavy operating overheads like warehouse expenses, office rent, staff salaries, bank borrowings, etc.

c) The buy-back policy of MLM companies reduces the risk of blocking up of investment in stocks.

d) Sales are strictly on cash basis, so risk of bad debts is low.

e) In MLM, there is auto promotion, due to high sales generated by distributor himself and

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his downline members.

f) The distributor does not require any professional or educational qualification to enter MLM. The only criteria required are the initial fees and determination to work hard.

g) The distributor can put in time as and when he wants because MLM is not a nine-to-five job. He can decide his goals and accordingly work for it.

h) Other advantages: The distributor gets an opportunity for personality development and independent identity. The training provided by the MLM Companies help him in all the aspects of life. It gives him an opportunity to meet a large number of people, so his social contacts improve. The distributor has not only his time for MLM but also the time of his sales force [downline] that means he will be paid for their time and efforts also.

Customers:

In MLM Companies, generally the distributors are themselves the consumers of the MLM products. They can even sell the product to others who are not the distributors. From the customers point of view, the following are the plus points of MLM.

a) Customers get shopping convenience through MLM.

b) There is quality assurance as customers can get 90-100% money back on non-satisfaction. Such money-back guarantees are provided only by genuine MLM Companies.

c) Customers have the opportunity to become distributors as well. They can even participate in the compensation plan of the MLM Company by becoming a distributor, and avail of the discounts available to the distributor.

Society:

MLM helps the companies, distributors, consumers as well as the society also. MLM provides additional earning opportunities to the people. This creates employment opportunities in the society. Some MLM Companies
work for social causes like breast, cancer treatment, AIDS awareness programmes, and books for blind students, etc. This again benefits the society. MLM does not discriminate among people on the basis like caste, creed, sex, religion or country.

**Minus Points**

Despite of all the advantages of MLM, it is still in infant stage and the true spirit of MLM in the form of mass movement is yet to catch up. The reasons for that are also not difficult to analyze. The researcher observed that the sales are mainly confined to higher income or higher middle class group. The reasons for non-penetration of MLM to the lower level are as follows:

**Companies:**

**Higher prices:** General perception among the people is that MLM products are costlier than similar products of non-MLM companies. This affects the sales.

**Leadership:** Many times, distributor leaders leave MLM, which affects the morale of downline members.

**Member enrolling activity:** MLM is still perceived as a member enrolling activity. This perception of Public has come in the way of growth of MLM.

**Distributors:**

**Pressure:** There is too much pressure on the distributors to complete the sales target. This is one of the reasons they leave MLM.

**Hidden Costs:** There are many hidden costs in MLM, which the distributors are not aware of at the time of joining.

**Plan:** 1) MLM companies have very complicated plans that distributors find difficult to comprehend and therefore are mislead into MLM.

2) Majority of MLM companies have stairstep breakaway plan, which is disadvantageous to the distributors, as it encourages the downline members to breakaway from the distributors.

**Training:** Many times, distributors suffer due to inadequate training imparted by MLM companies.
Frauds: Distributors get misled into pyramid scheme (in the guise of MLM) as they do not have a clear cut idea about the concept of MLM.

Customers:

Higher prices: Customers find the prices higher.

Health products: Customers are misinformed by distributors of MLM companies selling health related products, which can be dangerous to them in the long run.

Choice: Customers have limited choice in MLM products.

8.3 Testing of Hypotheses:

Conclusions drawn from the analysis and observations of the data collected, the researcher has tested the following hypotheses:

Hypothesis I

“Multilevel Marketing is a tool which can
a) lead to increasing sales
b) provide an opportunity for additional income to the distributors.”

Research study conclusions:

a) lead to increasing sales (parameters used to test the hypothesis are increasing turnover, entry of new companies into MLM)

Sales are increasing over the years.

✓ The turnover of the MLM Companies in India has increased 9 times from 300 crores in 1997 to 2700 crores in 2005. (page no. 89)

✓ Successful companies using traditional channels of distribution like Hindustan Lever Limited, Dabur and LG have also started using MLM as a distribution channel.

✓ The no. of companies using MLM as a distribution channel in India is increasing (page no. 125)

Thus, the hypothesis that “MLM is a tool which can lead to increasing sales” is proved.
b) provides an opportunity for additional income to the distributors
(Parameters used to test the Hypothesis are aim of distributors in joining MLM, time devoted)

✓ The total number of Distributors in India has been increasing. It has increased 11 times from 1.2 lakh in 1997-98 to 13.73 lakh in 2005. (page no. 90)

✓ People prefer MLM as a part time employment. Occupation wise primary data shows that the frequency of distributors who are either students, housewives or people from private sector (who wish to utilize their spare-time) is 112 (56%).

✓ People join MLM to earn additional income. The frequency of distributors who have joined MLM for earning additional income [i.e. not as a main source of income] is the highest i.e. 156 (78%).

✓ MLM is used as a part time activity to get additional income. 94 (47%) is the frequency of distributors who do MLM part-time and 96 (48%) is the frequency of distributors who do MLM as & when possible.

Thus, the hypothesis that “MLM is a tool which can provide an opportunity for additional income to the distributors” is proved.

Hypothesis-II

“Multilevel marketing can lead to satisfied distributors and customers”
[Parameters used to test the hypothesis are:
Satisfaction of Distributors: Remuneration of the distributors, recovery of initial investment, product range, training, delivery period, experiences, overall attitude towards MLM, inventory loading,
Satisfaction of Customers: Quality easy availability, Price, Regret on purchase, etc.]

Research Study Conclusions

Satisfied Distributors:
✓ **Remuneration:** The distributors are happy with the very fact that they are receiving remuneration i.e. their efforts are not going waste. The frequency of distributors who are satisfied with the remuneration received is highest i.e. 166 (83%)

✓ **Recovery of initial investment:** Initial investment can be recovered within a short period or reasonable period. The frequency of distributors who recovered their initial investment in first six months is 67 (34%) and 83 (42%) of them within 12 months. It is also proved through chi-square test (page no. 160) that initial investment and recovery period are directly related. Low initial investment (in genuine MLM companies) has lead to short recovery period and thus leads to satisfied distributors.

✓ **Delivery Period:** Distributors get prompt delivery from MLM companies. The frequency of distributors who are satisfied with the promptness in delivery of the product or service by MLM companies is 176 (88%)

✓ **Product Range:** Distributors are satisfied with the product range of MLM companies. The frequency of the distributors who are satisfied with the product range of MLM companies is 140 (70%)

✓ **Cheating:** Distributors do not feel cheated in MLM. The frequency of distributors who do not feel cheated is 174 (87%). It is also proved through Chi-square test, that distributors who do not feel cheated in MLM belongs to the category, where the companies emphasize on recruiting members in the downline as well as sale of products (page no. 157). These companies are genuine MLM companies. Thus, it is proved that the distributors do not feel cheated in genuine MLM companies.

✓ **Overall attitude towards MLM:** Distributors are happy with the overall concept of MLM. The frequency of distributors who are satisfied with the overall MLM system is 134 (67%).

Above-mentioned conclusions indicate satisfaction of distributors towards some aspects of MLM. However, following conclusions throw light on their dissatisfaction about other aspects of MLM.
x **Quantum of remuneration:** Remuneration earned is low. Distributors are satisfied with the fact that they are earning some remuneration but not happy with the quantum. The frequency of distributors who earn less than Rs. 2000 p.m. is 136 [68%] which is a major grievance of the distributor.

x **Business plan:** It is not convincing. 47 distributors [24%] are not satisfied with the business plan, which is the crux of MLM.

x **Bad experiences:** Distributors have bad experiences due to working of the system. The frequency of distributors who had bad experiences is 54 [27%], Bad experiences like spoilage of social relationships and blockage of funds have led to dissatisfaction.

x **Pressure for sales target:** Distributors dislike the pressure tactics of MLM. The frequency of the distributors who are under pressure to buy for self-consumption to complete the sales-target is 78 [39%], which is again one of the causes of dissatisfaction.

x **Peer-pressure:** Distributors join due to peer-pressure. The frequency of distributors who have joined MLM just due to peer-pressure is 38 [19%], which is an important reason for their non-performance and dissatisfaction with MLM system.

x **Time-consuming:** MLM is time consuming and rewards are not proportionate. The frequency of distributors who have stopped doing MLM is 66 [33%], which is an indicator of dissatisfaction. Distributors feel that MLM requires more time and there are hidden costs.

**Thus, distributors are satisfied with certain aspects but not satisfied with certain other aspects of MLM, the hypothesis that “MLM leads to satisfied distributors” is partially proved.**

**Satisfied Customers:**

- **Quality:** 1) The customers are happy with the quality. The frequency of the customers who are satisfied with quality is 143 [97%] and nearly equal majority 139 [95%] buys for self-consumption.
2) Chi-square test (page no.184) showed that quality of MLM products is not a factor for regret of customers buying MLM products.

3) Customers are motivated to buy MLM products due to quality. The frequency of customers who are motivated to buy MLM products by quality is 89 (61%) and by brand 32 (22%) (which is again an indicator of quality).

✓ **Availability:** MLM products are easily available. A large no. of customers 58 (58%) prefer MLM products due to easy availability, which is a factor influencing buying decision.

✓ **Regret:** Customers do not regret buying MLM products. The frequency of customers who didn’t regret buying MLM products is 111 (76%).

Though the above conclusions indicate satisfaction of customers, they are not satisfied with certain factors like price, choice (variety), which are important motives in any buying process.

**x Price:** Prices of MLM products are higher. A large no. of customers 85 (58%) find the prices high. It is also proved through Chi-square test (page no. 183) that the regret about buying decision and higher prices are dependent factors. Thus, customers are not satisfied with the price. This shows dissatisfaction of customers about price.

**x Other reasons:** MLM fails to provide wide choice. The frequency of customers who have regretted purchase of MLM Products is 36 (24%). The regret was due to reasons like availability of cheaper products in the market or they thought that price and quality did not match.

As customers are satisfied with certain aspects but not satisfied with certain other aspects of MLM, the hypothesis that “MLM leads to satisfied customers” is partially proved.

Hypothesis III

“Absence of regulatory framework and ignorance among people about MLM may be the reason for fraudulent tendencies in MLM”
[Parameters used: Primary emphasis of MLM companies on selling/recruiting, Legal aspects of MLM, bad experiences of the distributors.]

Research Study Conclusions:

Regulatory Framework:
There is absence of separate regulatory framework for MLM.
✓ There are various Acts like Consumer Protection Act; Sale of goods Act; Prize, Chits and Money Circulation Scheme [Banning] Act, etc which govern different aspects of MLM, but not with the concept of MLM.
✓ There is no separate legislation in India like in Philippines or regulatory authority like FTC [USA], which defines or distinguishes between MLM and pyramid schemes.
✓ Common people are not able to distinguish between pyramid and MLM. It is proved through Chi-Square Test, that Distributors, who feel cheated in MLM belongs to the category, where the companies emphasize only on recruiting members in the downline. These companies are not MLM companies but pyramid schemes. (page no. 158)
✓ IPC (Indian Penal Code); Prize, Chits and Money Circulation (Banning) Act are inadequate to take action against the offenders. (i.e. those who are operating in pyramid schemes in the guise of MLM)

Ignorance among distributors:
The number of cases against so called MLM companies is increasing. Distributors do not have a clear understanding of the concept of MLM.
✓ It is proved through Chi-Square Test, that Distributors, who are not satisfied with MLM belongs to the category, where the companies emphasize only on recruiting members in the downline. These companies are not MLM companies but pyramid schemes. Thus, ignorance and lack of knowledge about MLM among distributors had created fraudulent tendencies in MLM. (page no.159)
✓ It is proved through Chi-Square Test, that Distributors, who have faced bad experiences in MLM belong to the category, where the companies
emphasize only on recruiting members in the downline. These companies are not MLM companies but pyramid schemes. However, due to ignorance, distributors could not distinguish between the two. (page no.158)

✓ It is proved through Chi-Square Test, that Average monthly income through MLM is not dependent on the initial investment. Distributors are attracted to pay high initial joining fees in MLM with the prospects of getting high returns. Companies promising high earnings by paying high fees are not genuine MLM companies. These kind of fraudulent tendencies take place because of ignorance and lack of education about MLM. (page no. 162)

In the light of above mentioned conclusive parameters, the hypothesis that “Absence of regulatory framework and ignorance among people about MLM may be the reason for fraudulent tendencies in MLM” is proved.

8.4 Recommendations:
The Researcher has closely observed the modus operandi of MLM companies in opportunity meetings and claims made by the promoters. On the basis of the research work and the suggestions given by the respondents of the questionnaires, as well as the persons interviewed, the following recommendations are made to make MLM more effective.

8.4 A Recommendations to the Prospective Distributors:
[Prospective distributors - People who are about to join a MLM Company as distributors].

These are some of the tips which a prospective distributor should follow before joining a MLM company to assure that it is a genuine and legitimate MLM company and the plan is suitable to him.

a) Avoid any plan that includes commissions for recruiting additional distributors only. It may be an illegal pyramid.
b) Beware of plans that ask new distributors to purchase expensive products and marketing materials. These plans may be pyramids in disguise.

c) Be cautious of plans that claim that the distributor will make money through continuous growth of your downline, that is, the number of distributors you recruit. This could be again a pyramid scheme because no genuine MLM company will make claims of growth on increasing of downline.

d) The prospects should ask the promoter to substantiate claims about the plans that claim to sell miracle products or promise enormous earnings.

e) The prospect should ask the promoters to give the genealogy of their earnings to cross check their claims because promoters often lie about their earnings through the plan;

f) The prospect should take his time deciding about the plan. The prospect should talk it over with a family member, friend, accountant or lawyer before paying huge amounts. Beware of plan which says ‘get it on the ground floor’ means that it will make money and disappear overnight which is not a case of legitimate
opportunity. The prospect shouldn’t pay or sign any contracts in an ‘opportunity meeting’ or any other pressure-filled situation.

g) Often the promoters claim that the new distributor has to just join in and earn money. So the prospect should remember that lucrative plans are misleading and without hard work nothing can be achieved.

h) The prospect should check whether the MLM Company he is considering to join, is a member of IDSA [INDIAN DIRECT SELLING ASSOCIATION]. This will give authentic information about the particular MLM Company and its legitimate operations.

i) The prospect should select an MLM Company which has products of mass market appeal like household products, cosmetics, etc. and not one time use products like a CD-Rom. Companies that give products like CD-Rom, etc. [Samruddha Bharat and Dale Research Pvt Ltd] actually try to disguise the pyramids and project themselves as MLM companies.
j) The prospect should verify information about the company, its leadership, the products or services, start-up fees, realistic costs of doing business, average earning of distributors, return policies, etc. The prospect should study the literature of the company.

k) The prospect should consult with others who have had experiences, good and bad both, with the company and its products and check to see if the products or services are actually being sold to consumers. If the products are not actually sold to consumers, then it is a pyramid scheme in disguise.

l) The prospect should be cautious of the MLM companies, where start-up costs are very high because it might be a pyramid scheme.

m) The prospect should join preferably those MLM companies where he/she can return unsold inventory, so that he would not be in trouble, even if he wants to quit.

n) The prospect should go for a product based company and not a recruitment based company as it may be a pyramid scheme.

o) The prospect should see whether the company has evidence to back up the claims it makes about its product. Often the distributor, who is trying to recruit the prospect, makes false claims about the uses of the products. Such claims should be verified.

p) The prospect should see that the product is competitively priced. Often the products are highly priced so that the company can pay commission to its distributors. Such products will only result in front-end inventory loading with the distributor, resulting in losses to the distributor.

q) The prospect should avoid companies where there is too much pressure on sales target or recruitment of members.

r) If distributors come across any unethical practices in MLM, they should caution others and report the same immediately.
Checklist in a nutshell for prospects to differentiate between a legitimate MLM Company and a Pyramid Scheme.

1) Based on sale of quality products
   No commercially viable product sales base

2) Replacement of products or refund in case of dissatisfaction from customers
   No replacement of products or refund of money

3) Discourage inventory loading
   Encourage inventory loading

4) Minimal start-up costs Rs 20-Rs 5000 and offers exit option
   High entry fees upto Rs. 1,00,000 and no exit option

5) In case of participants leaving the company, it provides an opportunity to return any unused, saleable merchandise to the company for a refund of not less than 90% of the cost of inventory
   No such opportunity and disappointed participants are left with stock which can neither be sold nor returned

6) Rewards are based on sale of products basically
   Rewards are based on recruitment of members

7) No pressure on participants in opportunity meetings
   Pressure on participants in opportunity meetings

8) Existence of code of ethics
   No code of ethics

9) Member of Indian direct selling association
   Not a member of Indian direct selling association

10) Exist in the long run
    Exist only till the promoters make money in a short period

8.4 B Recommendations to the MLM Companies:

The following are some of the recommendations to the Multilevel Marketing Companies or for companies that want to go for Multilevel Marketing in future.

If the MLM companies follow the recommendations given below, they can grow well in the long run. This will also help them to compete with those MLM companies which are not legitimate and run pyramid schemes under the disguise of MLM and also non-MLM companies dealing in similar products.
Marketing Mix

a) The MLM companies should sell products of mass market appeal to generate repeat purchases and attract more customers.

b) The MLM companies should sell products at fair market value [fair market value is a price determined by an open market system. An indicator would be that consumers would still be willing to buy a product at its quoted price without participating in the Compensation plan]. This would ensure more sales for the MLM Company as it can compete with the non-MLM companies.

c) The MLM companies should pay its distributors on recruitment of more members in the downline, but this commission should be minimal. The revenues or incomes should be derived primarily from the sales volume and not the participant’s entry fees.

d) The MLM companies should have a low entry barrier such as low initial investment and a minimal processing fee or reasonable sales kit demonstration materials, sold at cost as prospects sign up as distributor. This will make maximum number of people to join in, especially in a country like India.

e) The MLM companies should have a low exit barrier by way of a “buy-back” policy [at a reasonable rate of the price paid] whereby the firm will rebuy within a particular period say[90 days] from last purchase, the unsold, unopened, unused, unexpired, undamaged and saleable inventory held by distributors resigning from or terminating their contracts with the company. This kind of buy-back policy will sustain the belief of the distributors in the company and its products. This will also help in establishing goodwill for the company.

f) The MLM companies should make it obligatory for the distributors to sell at least 70 percent of their previously acquired inventory before they make a repurchase. There should be absolutely no inducement for inventory loading.
g) Companies should keep the application fees low to cover the company's cost of producing sales and training literature and application and other forms. This is necessary to attract more distributors.

**Training and Motivation:**

a) The MLM companies should allow distributors to recruit people only after they fulfill certain criteria, for e.g. after completion of a certain target or completion of a certain period or both.

b) The MLM companies should make a strict code of ethics to be followed by the distributors. It is in the interest of the companies as well as the distributors. for e.g:
   - A person cannot become a distributor of more than one MLM company at a time.
   - The distributors should not make exaggerated product claims or non-guaranteed claims about the products of the MLM Company with regard to prices, quality, standards, grades, contents, style or model, place of origin, etc.

c) The MLM companies should organize training programmes more frequently for their distributors, on how to educate their downline distributors, for generating more business ethically. This will create positive attitude among the distributors towards the company.

d) Training should highlight two functions:

**Primary function:** sale of goods

**Secondary function:** building a downline

e) The distributors should be trained properly about various aspects of MLM working like sales plan, signing up of recruits and making the sales.

f) The companies should not mislead distributors by promising downline distributors to him.

**Social Responsibility:** The MLM companies should fulfill their social obligations. Some MLM companies like Amway and Avon are taking care
of social issues. Amway India is supporting the education of Blind students in some states providing them with Braille Text books from time to time. Avon donates a certain percentage of the sales volume of some of its products to Breast Cancer Patients. Modicare has setup the RBGM AIDS FOUNDATION to promote awareness of AIDS in India and prevents its spread through Voluntary Counseling programmes. Such type of Social Responsibility generates goodwill for the MLM companies.

8.4 C **Recommendations to IDSA:**

- IDSA should carry out massive information drive and distributor education so that distributors will become aware of pyramiding schemes and understand the difference between a legitimate MLM company and a pyramid scheme. This will save the MLM industry from a bad name given to them due to the unethical practices of illegitimate pyramid schemes.
- It should follow up the Government for separate legislation for MLM.
- Organizations like IDSA should be established at District levels also, to monitor MLM Companies.

8.4 D **Recommendations to the Government:**

The following are some of the recommendations to the Government.

a) Government should establish a regulatory framework either in the form of any legislation or additional / separate provisions to existing legislations

Or in the form of a monitoring authority like FTC (USA.)
b) The Government should insist that MLM companies should deposit a fund at the time of inception. This fund could be used for protecting the financial interest of the distributors especially at the lower level in case of untimely winding up of the company due to mal practices or other reasons.

c) MLM companies’ presentation of product and plan should be monitored to ensure their validity as genuine MLM companies.

d) Government should try to spread more awareness about MLM Companies and their operations, so that people can differentiate between genuine MLM and pyramid schemes.

8.4 E Recommendations to the General Public:
People should not have prejudice against MLM companies but should look at positive aspects of MLM like additional source of income, employment opportunities, convenience in shopping, etc. At the same time, people must avoid of falling prey to pyramid schemes.

If above mentioned recommendations are implemented, the researcher is confident that MLM will become a win-win situation for company, distributors, customers and ultimately to the society.

8.5 New Areas of Research in MLM:
Researcher feels that there is further scope for research about various areas relating to MLM. Few are given below:

1) New strategies that can be adopted by MLM Companies to compete with the traditional system of buying products.

2) New compensation plans that can be offered to the distributors which are more beneficial to both.

3) Impact of working of MLM companies on the Indian economy.

4) Study of working of MLM companies in other countries especially developing countries.