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CHAPTER II

Multilevel Marketing, a Theoretical Background
(Literature Review)

2.1 Introduction

Marketing is a very important function of management. In today's competitive world, no business organization can survive if it neglects this function. Marketing management has become one of the most dynamic and popular subjects in the business schools. Nowadays, management has become all pervasive. Not only business organizations but entities like educational institutions, political parties, social organizations have also become marketing oriented.

According to great American marketing expert, Philip Kotler, “Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.”

Evolution of Marketing:

Before industrial revolution, production was on a small scale, as per order, and limited to local markets – so role of marketing was limited. Industrial revolution changed this picture. After industrial revolution, production started on a large scale in anticipation of demand. Transport and communication revolution led to expansion of the market. The business organizations started concentrating on mass production (production concept), with the assumption that customers want low priced products. As this approach neglected customers’ expectations, it did not work for a long time. This led them to focus on product (product concept). Here, the emphasis was on product quality, performance and features. This led to marketing ‘myopia’, a focus on product rather than on customers’ needs. When this approach did not work, i.e. many improved versions of quality products could not succeed in the market, the
attention was shifted to selling, i.e. aggressive advertising and sales promotion (selling concept). The belief was that with aggressive selling and sales promotion, organizations can make customers buy what they have produced. Many organizations still have this belief. However, when this approach did not succeed, organizations started thinking in terms of customers – needs, expectations (marketing concept). It begins and ends with the customers.

In last ten-fifteen years, various developments have taken place in the world over and in India too, which has forced business organizations to give increasing importance to marketing. Few changes in the Indian environment are described below:

1) After 1991, due to Economic Reforms Policy of LPG (Liberalization, Privatization and Globalization), the nature of market for almost all products have changed from sellers’ market to buyers’ market.

2) Due to the entry of foreign companies in the Indian market, the competition has become multi-dimensional. There is competition amongst local organizations, local and foreign organizations, foreign and foreign organizations. This cut-throat competition is forcing them to be innovative in marketing.

3) Customers have become well informed and choosy.

4) Fast changes in technology, are reducing the life-span of the product.

These changes have altered the way, organizations were doing business. These changes in marketing environment have given rise to a set of new beliefs and practices on the part of the business firm. As Kotler¹ has pointed out the changes,

<table>
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<tr>
<th>OLD ECONOMY</th>
<th>NEW ECONOMY</th>
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<tr>
<td>Organize by product units</td>
<td>Organize by customer segments</td>
</tr>
<tr>
<td>Focus on profitable transactions</td>
<td>Focus on customer life-time Value</td>
</tr>
<tr>
<td>Look primarily at financial scorecard</td>
<td>Look also at marketing scorecard</td>
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</tbody>
</table>
Focus on shareholders
Marketing does the marketing
Build brands through advertising
Focus on customer acquisition
No customer satisfaction measurement
Over promise, under deliver.

Focus on stakeholders
Everyone does the marketing
Build brands through performance
Focus on customer retention
Measure customer satisfaction and retention rate
Under promise, over deliver.

These beliefs in the new economy required a turn around thinking. Stan Rapp and Tom Collins have described The Great Marketing Turnaround as

**The Great Marketing Turn around**

Means turning away from And turning towards

Unknown prospects & customers Known prospects & customers
Creativity- driven Response-driven
“Stream-rolling” the market Filling each niche
Ad impressions counted New customers won
Advertising monologue Consumer Dialogue
**Bombarding the market** Building Relationships
Passive consumers Involved participants
Mass marketing Direct mass marketing
U. S. P (Unique selling proposition) E. V. P (Extra value proposition)
Single-channel Distribution Multi-channel Distribution

This importance of marketing is increasing day by day. Every organization formulates its marketing strategy through various decisions relating to product, price, place and promotion. Traditionally companies concentrated only on product, price and promotion. Distribution remained
somewhat neglected. However, in this changed scenario, they are forced to have a fresh look at distribution.

Distribution is witnessing a revolution. Never before it has captured attention of business organizations, in this way. Organizations have realized that best product, competitive prices, aggressive promotion would not be successful unless distribution is taken care of. Countries like India, China have a huge customer base which needs to be tapped with extensive distribution. Therefore, they are trying to be innovative with distribution.

Before industrial revolution, due to small markets and low production scale, only direct marketing was used. But, later with the increase in production and competition, different intermediaries were used to smoothen the function of distribution. Now, in the changed scenario, organizations are again resorting to direct marketing or using it in addition to indirect marketing

**Consumer Marketing Channels**

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<th>0 - Level</th>
<th>1 - Level</th>
<th>2 - Level</th>
<th>3 - Level</th>
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<tr>
<td>Manufacturer</td>
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<td>Retailer</td>
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<td>Wholesaler</td>
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<tr>
<td>Consumer</td>
<td>Consumer</td>
<td>Retailer</td>
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<td></td>
<td></td>
<td></td>
<td>Retailer</td>
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</table>

Direct marketing is the use of 0-Level channel i.e. without using marketing middlemen. These channels include direct-mail, Catalogues, telemarketing, kiosks, web0sites and mobile devices. Direct marketing is one of the fastest growing avenues for serving customers.
2.2 Direct Selling

As defined by Richard Berry, direct marketing means “The obtaining of order and the supply of consumer goods to private individuals away from normal retail premises, usually in their homes or places of work, in transactions initiated and concluded by a sales person”

There is nothing new about the concept of direct selling, the supply of goods from a manufacturer directly to the users of those goods. It is the way in which most raw materials, component, equipment; goods and services are supplied to industry and commerce. However, when it comes to consumer goods, we have all got rather too accustomed to other channels of distribution [i.e. retail stores]. Retail stores are accepted as the normal method of distributing consumer goods, with the entire middlemen involved in it, whereas direct selling eliminates middlemen resulting into saving of costs.

A brief history of direct selling and Retailing can throw light on their co-existence.

History of Retailing & Direct Selling

From the Middle Ages onwards, as small communities grew into towns and cities, street markets gradually developed into retailing from fixed locations. As early as the thirteenth century, the Thibauts, in the French province of champagne, exercised considerable political and commercial power through well-organized fairs, at specific times and places throughout the year, that sold a wide range of locally produced and imported goods. By the sixteenth century, in The Hague, in Holland, retailing had reached the point where certain streets were designated for the retailing of specific products and where retailers competed vigorously with one another.

In Britain, these developments took place much later. The first British retailers were in competition with traveling peddlers – the first direct sellers. These ‘chapmen’ as they were called, many of whom regularly
travelled from Scotland down into northern England with a wide range of household products, were resented by the growing retail community. As a result, in the seventeenth century, some of the earliest local bylaws were introduced, not for consumer protection reasons but to protect local tax-paying retailer from what they considered to be unfair competition. Later, in the United States, the Yankee peddler, the first American direct seller, provided a greatly valued service to isolated communities and they were able to go on doing so, until the end of the nineteenth century. In India too, direct selling was done by hawkers and peddlars.

By the mid-nineteenth century, most of the goods that we find in today’s supermarkets were supplied by craftsmen or local manufacturers who dealt directly with these customers. In Victorian Britain, virtually every town was self-sufficient in the supply of household products – from chemists who bottled their own potions to the iron mongers, who made and sold household utensils.

As manufacturing methods improved and as the road and rail transport network extended, there developed specialist manufacturers who needed retail stores to sell their goods. Many created demand for their products by national advertising. However, dealing with a growing number of small retail outlets was burdensome and so there also developed a network of wholesalers who specialized in certain products and who were able to satisfy the demands of the small retailers. This was a system of distribution that continued largely unchanged until the 1960s.

The next big revolution in retailing was the emergence of the retail chains and later the super stores who were large enough to deal directly with the manufacturers.

The retail chains had certain weaknesses which gave rise to direct selling organizations.

**Emergence of direct selling organizations (DSO) due to the following weaknesses of retailing:**
a] One major weakness is their inability to maintain close contact with their customers and to respond quickly to any changes in demand. Any manufacturer would like, if it were possible, to deal directly with their ultimate consumers.

DSO, by comparison, knows within a matter of days which of their products are selling best and in what volume. Manufacturers with their own retail store chains, and those who supply the major food retailers, get an equally prompt feedback, but for others, particularly those marketing seasonal lines, responding to changes in demand can be major problem.

b] The information a DSO receives, from the orders of its sales people, is based not on sales expectations but on current sales demand. It is invaluable in forecasting and maintaining efficient inventory levels.

c] Conventional brand advertising, while effective, may be demonstrably wasteful. Direct sellers, on the other hand, are able to give clearly focused ‘live commercials’.

d] The growth of information technology and relatively inexpensive computerized data management systems, now make it possible for a business to administer economically small accounts in a way which was previously impractical . A small DSO can now store, retrieve and reproduce information on each one of thousands of predominantly part-time independent salespeople.

e] Quite apart from other changes of patterns of employment and in the sociological, demographic structure of society, it is these technological developments that have a major contributory factor in the challenge now presented by DOSs to conventional retail stores.

2.3 **Major channels for direct selling organizations**

These include face to face selling, direct mail, Catalogue marketing, telemarketing TV and other direct response media, kiosk marketing and e-Marketing.
1] **Face to face selling:**

The original and oldest form of direct selling is the field sales call. Today, most industrial companies rely heavily on a professional salesforce to locate prospect, develop them into customers, and grow the business, or they hire agents to carry out the direct selling task. In addition, many consumer companies use a direct selling force: insurance agents, stock brokers, and distributors working for direct-sales organizations such as Avon, Amway, Mary Kay, and Tupperware.

2] **Direct Mail:**

Direct mail marketing involves sending an offer, announcement, reminder, or other item to a person. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year, letters, flyers, brochures, and “sales people with wings.” Some direct marketers mail audiotapes, videotapes, CDs, and computer diskettes to prospects and customers. Ford sends computer diskette called “Disk Drive Test Drive,” to consumers responding to its ads in computer publications.

Until recently, mail was paper based and handled by the Postal Service, but now three new forms of mail delivery have appeared:

2a] **Fax mail:**

Fax machines enable one party to send a paper based message to another over telephone lines. Marketers have begun to send fax-mail announcing offers, sales and events to prospects & customers.

2b] **E-mail:**

E-mail [short for electronic mail] allows users to send a message or file from one computer directly to another. The message arrives almost instantly but is stored until the receiving person turns on the computer. Marketers send sales announcements, offers, and other messages to e-mail addresses – sometimes to a few individuals, sometime to large groups.

2c] **Voice mail:**
Voice mail is a system for receiving and storing oral messages at a telephone address. Telephone companies sell this service as a substitute for answering machines. Some marketers have setup programmes that will dial a large number of telephone numbers and leave the selling message in the recipients' voice mail boxes.

3) Telemarketing

Tele marketing involves the use of the telephone and calls centers to attract prospects, sells to existing customers, and provide service by taking orders and answering questions. Telemarketing helps companies increase revenue, reduce selling costs, and improve customer’s satisfaction.

Companies use call centers for ‘inbound telemarketing’ (receiving calls from customers) and ‘outbound telemarketing’. (Initiating calls to prospectus and customers). In fact, companies carry out four types of telemarketing:

- **Telesales**: Taking orders from Catalogues or ads and also doing out bounds calling.
- **Telecoverage**: Calling customers to maintain and nurture key account relationships.
- **Teleprospecting**: Generating and qualifying new leads for closure by other sales channels.
- **Customer Service & technical support**: Answering service & and technical questions.

4. Kiosk Marketing

A Kiosk is a small building or structure that might house a selling or information unit. The term describes newsstands, refreshment stands, and free-standing carts whose vendors sell watches, costume jewelry, and other items often seen along the aisles in a mall. The term also covers computer-linked vending machines and “customer-order-placing machines” that one sees in stores, airports, and other locations.

5. E-marketing:
The newest channels for direct marketing are electronic. E-business describes a wide variety of electronic platforms, such as the sending of purchase orders to suppliers via Electronic Data Interchange (EDI), the use of fax and e-mail to conduct transactions, the use of ATMS, smart cards to facilitate payment and obtain digital cash, and the use of the Internet and online services. All of these involve doing business in a “market space” as compared to a physical “Marketplace”.

6) **Other media for Direct Response Marketing**

Newspapers and magazines carry abundant print ads offering books, articles of clothing, appliances, vacations, and other goods & services that individuals can order by dialing a toll-free number. Radio ads present offers to listeners 24 hours a day. Television is used by direct marketers in three ways to promote direct sales.

6a) **Direct-Response Advertising:**

Some companies prepare 30 and 60 minutes infomercials (information commercials), which resemble documentaries (on quitting smoking, curing baldness or losing weight), carrying testimony from satisfied users of the products or services, and include a toll-free number for ordering or getting further information.

6b) **At home Shopping Channel:**

Some television channel are dedicated to selling good and services home shopping network [H.S.N], which broadcast 24 hour a day, consists of the program’ hosts offering bargain prices on such product as jewelry, lamp, collectible dolls, and power tools

6c) **Video Text And Interactive T.V:**

Here the consumer’s TV set is linked with a seller’s Catalogue by cable or telephone lines consumer can place order via a special keyboard device connected to the system.

2.4 **Organization Structure Of DSO’s:**

There are two types of organization structure which can be used by direct selling organization they are
a) Single-Level Marketing [SLM]

b) Multi-Level Marketing [MLM]

A] In a conventional SLM [DSOs], the selling function is carried out by full or part time sellers. They may be counter salesperson or travelling salesperson.

The other sales support function of recruiting training, motivation, account administration and the delivery of good are the responsibility of others who are the employees of the business organizations. These are the ways in which most industrial sales force are organized and were the structure of all the original DSOs.

DSOs like Encyclopedia Britannica are still organized in this way

B] Multi level marketing MLM [DSOs] It is an innovative tool used to cover large customer base. Here, the customers can become a participant in the selling process. They can become the distributors and sales manager also. Here the sellers perform the functions of recruiting, training and motivation

Zig Ziglar has defined MLM in the following way:

“MLM is a direct selling program that pays distributors for their own sales, as well as for the sales of multiple levels of distributors who are below them in the company’s, hierarchy. In multi-level marketing, independent distributors represent a network marketing company and sell directly to consumers rather than through conventional outlets, such as retail stores”. It is also called network marketing or referral marketing.

A MLM Company has the following five features:

1) MLM is a business organization that supplies products directly to participants who are personally attracted by the products, consider them to be of good value for money and are keen to use the product themselves.

2) MLM rewards the participant for sales made personally.
3) MLM rewards the participant for recruiting members in the downline (new distributors sponsored by him).

4) MLM rewards the participant for the sales made by the downline (i.e. sponsored distributors).

5) A distributor of MLM Company builds and maintains its own network of other participants, each with their own retail customers.

2.5 Direct Selling & MLM

Direct selling is a broader concept and MLM is a part of it. Direct selling includes various methods like Telemarketing, e-commerce, MLM, etc. However, MLM differs from these other direct selling techniques in following respects.

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<td>It refers to a distribution method</td>
<td>These are related to only</td>
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<td>and more specifically to a compensation</td>
<td>distribution methods</td>
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<td>plan related to forming a chain of</td>
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<tr>
<td>distributors.</td>
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<td>Seller is paid on</td>
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<td>personal sales</td>
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<td>sales made by members recruited</td>
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<tr>
<td>the downline</td>
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<tr>
<td>recruitment of distributors</td>
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<tr>
<td>Generally used for consumer goods</td>
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<tr>
<td>The distributor (i.e. seller)</td>
<td>There is no such recruitment</td>
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<td>recruits member in the downline</td>
<td>done by the seller</td>
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<tr>
<td>The distributor performs the functions</td>
<td>The seller performs only one role</td>
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<td>of selling, recruiting &amp; managing the</td>
<td>of selling the goods</td>
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<td>sales force recruited by him.</td>
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2.6 Difference between Conventional Methods of Product Distribution and MLM:

MLM is one of the many ways of selling goods and services. It is a marketing concept which can be applied to virtually any consumer product
or service. The basic principles of MLM which make it so different from conventional methods of product distribution are:

- Structure of sales force
- Sharing of profit
- The selling method

1. **THE SALES FORCE**
   - **In the conventional business**, the salespersons are usually employed staff. **In MLM**, the distributors are the salespersons, and they are self-employed. Every distributor is personally introduced to the business by the manufacturer or, more likely, by an existing distributor.
   - When a new MLM company wishes to introduce a product into the market place, it first selects a nucleus of enthusiastic people in key areas across the country and teaches them everything about the product and the marketing plan to be used. The company will then assist these original distributors to sponsor (recruit) further distributors, and so on, by organizing seminars and other business opportunity meetings around the country. The rate of growth of the company’s sales depends entirely on the commitment of their distributor force in selling the product and sponsoring more distributors.

2. **PROFIT SHARING**

   **In the conventional business**, a large portion of gross profit is consumed by advertising, salaries, stock holding, administration etc. Marketing of new products is still more costly. This is reflected in profit figures. Again there is very less incentive to retailers, sales people to really push the products. This affects the sales volume and thereby the profit too.

   **In MLM business**, above mentioned costs are low, the word of mouth plays very important role in creating demand. Distributors are much more motivated not only to sell more but to add more distributors to
network as they share profit (commission). This enables to cover a large customer base leading to increase in sales.

3. **THE SELLING METHOD:**

- **In a conventional business**, the business organization needs various media to attract its customers to its retail outlets.

- All **MLM** sales are made by ‘direct selling’. Direct Selling can be done by party-plan, person-to-person and door-to-door.

- Such type of direct selling has certain advantages over shop retailing, for the customer, the salesperson and the manufacturer. **Customer:** The customer doesn’t have to leave home and the products are delivered at his house. This has great appeal to old or frail people, and it also appeals to busy people who would rather avoid battling through town-centre shops for buying products. The customer is likely to receive a great deal more personal attention from the salesperson than he can except at a shop. **Seller:** With person to person sales, the seller has an opportunity of developing a friendly relationship with the customer, if the latter is not already a friend. This relationship is vital for repeat sales to the customer, and also allows new product to be introduced and demonstrated on a regular basis.

2.7 **Importance of Multilevel Marketing:**

MLM is now an internationally accepted business practice. “MLM, a unique distribution system, a new technique of selling goods and services directly to consumers-doing away with the middlemen in the process-has today become a US $100 billion industry and is in operation in as many as 110 countries, involving 25 million people. Observers of the marketing scene worldwide, who are highly optimistic about the growth of the concept, estimate that the size of MLM industry will swiftly cross US $1000 billion mark by 2010.”

Stephen R. Covey, the author of the ten-million-copy bestseller, “the 7 habits of Highly Effective People”, opines in a March 1999 Cover
story in *Network Marketing Lifestyle Magazine* that “Multilevel Marketing gives people creative opportunity to set up their own business and improve themselves.”

**Advantages of Multilevel Marketing to distributors:** Apart from money, there are many other reasons which tempt people to join Multilevel Marketing.

1) **Potentially high earnings for part-timers:**
The earnings can be high compared with most part-time jobs which, by their very nature, can be menial or undemanding and therefore attract low rates of pay. Salespeople could earn considerably more from a network marketed product than from the same product being sold on commission in traditional marketing.

2) **Complete flexibility of work hours:**
In many part-time jobs, one is required to fit in with certain hours. But, Network Marketing is totally flexible, for instance, a mother can vary her work pattern according to whether it is exam time or school holidays, a business person, who is using his network marketing business as an additional profit-centre, can keep it aside when his core business is busy and use the extra time profitably when his core business is slack.

3) **A high-level business with a minimal investment:**
The costs of getting involved in a genuine Network Marketing Company are generally minimal [like, the joining fees may vary from Rs. 100 to Rs. 5000]. The amount invested initially in stock purchases is also not very high (in genuine MLM companies).

4) **There is minimal risk on stock purchase:**
In most of the network marketing companies, there is a minimum legal 90 percent buy-back clause in the contract. [i.e. the company will buy-back the unsold stock at 90% rate]. The distributor is not required to buy stock until he has already pre-sold it.

5) **The cash flow is positive:**
Normal business many times operates on what is called a negative cash flow. [i.e. offering credit]. So there are chances of bad debts. But Network Marketing operates on what is called as a positive cash flow. Everything is cash with order. In other words, customers pay the distributor cash with order and the distributor pays the company cash with order. This is a protection against both overtrading and customer bankruptcy.

Cash with order throughout the system has another advantage. Network marketing allows distributors in serious financial difficulty to set up a business with virtually no capital, if the system was based on credit, companies would have to run credit checks which would not give positive cash flow.

6) **The overheads are minimal:**
In Network marketing, warehouse expenses, staff expenses, office expenses are negligible

7) **Self-promotion / Promotion based on results:**
There are none of the barriers to promotion which are met in traditional business, where the first hurdle is that one has to rely totally on a superior’s assessment of whether he is good enough to be promoted. The second hurdle in traditional business is that, even if the company does consider that the distributor deserves promotion, they may not have a vacant position to promote the distributor. This means that the distributor has to wait for the position to become vacant or move to a new company.

However, in network marketing, there are no such hurdles. A distributor can climb the ‘corporate ladder’ just as fast as his determination and commitment will let him.

8) **Any one can do it (No qualification required):**
In Network Marketing, generally higher educational qualification is not required. Therefore, anyone having time to spare and will to put in hard work can join. MLM is very popular with students, housewives, self-employed, etc.

9) **The Social life:**
This is a pleasant side benefit. There is spontaneous and immediate acceptance of new people. Most enjoy the quickly made but lasting friendships which are forged among distributors, and this stems partly from the fact that everyone enjoys what they are doing and partly, because, perhaps for the first time in their lives, people feel free to do what they want to do and be who they want to be. Whether they are in the same company or not, distributors enjoy the camaraderie found in any club or organization. Distributors get a social life in parties, and training sessions organized by the upline or company from time-to-time.

This is rightly observed by Dr. D. Chandra Bose³, “MLM offers the first real opportunity for large numbers of people to break free from the nine-to-five grind. It is the fastest growing sector of the retail economy. People view network marketing as a good investment avenue. They are attracted by the residual income provided by it and try to supplement their regular income with income from network marketing.”

**Advantages of Multilevel Marketing to Customers:**

1) **Savings:** In MLM, the distribution system is changed by eliminating altogether the intermediaries or replacing them by one network marketing company and thus the product moves directly to the consumer. The **advertisement** is replaced by **mouth publicity**. The **amount** thus saved is shared among the consumers through whom other consumers come in the network. The amount earned by consumers multiplies geometrically and common man can earn good money by practically doing the same thing as he was doing earlier in the conventional business environment without earning any thing.

2) **Shopping Convenience:** The customer doesn’t have to leave home and the products are delivered at his house. This has great appeal to old or frail people, and it also appeals to busy people who would rather avoid battling through town-centre shops for buying products.
3) **Personal Attention:** The customer is likely to receive a great deal more personal attention from the salesperson than he can expect at a shop.

4) **Participation in the selling process:** If the customer wishes, he can be a part of the selling process by joining as a distributor. This will allow him to get the products at discounted prices.

Thus, through MLM, both distributors and consumers grow together.

### 2.8 Origin of MLM

The roots of MLM are intertwined with those of Amway Corporation and its Nutrilite product line. The Nutrilite concept is said to have originated during the early 1930’s in the mind of Carl Rehnberg, an American businessman who lived in China from 1917 to 1927. This gave Rehnberg “ample opportunity to observe at close range the effects of an inadequate diet”.

He also “became familiar with the nutritional literature of his day”. Concluding that a balanced diet was needed for proper bodily function, he began to envision a dietary supplement which could provide people with important nutrients regardless of their eating habits. After seven years of “experimentation”, Rehnberg produced food supplements which he gave to his friends to try. After a certain length of time, he visited his friends to see what results had been obtained. More often than not, he found the products sitting on the back shelves, unused and forgotten. It had cost them nothing and was therefore, to them, worth nothing.

.................It was at this point that he rediscovered a basic principle- that the answer was merely to pay something for using and recommending the product. So he started charging his friends for the...
product. They having paid for the product, ate it, liked it, and further wanted their friends to have it also. When they offered Rehnberg to sell the product to their friends, he said, “You sell it to them and I'll pay you a commission”. This is how the concept of multilevel marketing originated. Carl Rehnberg's food supplement business, which thus began as the California Vitamin Corporation, changed its name to Nutrilite Products in 1939. 

Rich De Vos and Jay van Andel were friends who became Nutrilite distributors after high school graduation. They were extremely successful and built a sales organization with over 2000 distributors. Fearing that Nutrilite Products might collapse, they formed a new company, the American Way Association, later renamed Amway. They began marketing bio degradable detergent products and other household cleaning products and later diversified the product line to include beauty aids, toiletry, jewellery, furniture, electronic products, and many other items. Gross sales rose steadily from half a million dollars in 1959 to over a billion dollars by the early 1980's. Inspired by its success many organizations also saw the opportunity to make money.

2.9 Growth of MLM:

Multilevel Marketing developed through the 1970's but due to the actions of a few unscrupulous MLM operators, it was dragged to the Courts. Amway fought and won, in 1979, thereby proving that MLM was a legally justifiable form of business. Amway's success caused the first industry boom from 1979 to 1984 when hundreds of new companies were launched and the U. S. Direct Selling Association reports that over 1 million people joined. This growth in MLM gave rise to arrival of MLM
companies like Oriflame (1967), Tupperware, Japan Life (1975), Herbalife (1980)

Following their US success, many direct sales companies then expanded internationally creating booms in countries such as Australia and Japan. In Asia Pacific, this first wave rolled into Taiwan, South Korea, Hong Kong, Malaysia, Thailand, Philippines and finally it is rolling into India and China.

MLM has been the fastest growing sectors of the direct selling industry worldwide. In 1988, the total revenue generated by MLM was $12 bn, which doubled to $24 bn by 1998. The direct marketing industry in India was about Rs 6 bn in 1999. This was a growth of 62 percent over the previous year. In 2001, direct sales of $300 million was generated with a sales force of 8,06,000 people.

2.10 WFDSA [WORLD FEDERATION OF DIRECT SELLING ASSOCIATION]

**History** Founded in 1978, the WFDSA is a nongovernmental, voluntary organization representing the direct selling industry globally as a federation of national Direct Selling Associations. The United States Direct Selling Association serves as the Secretariat for the Federation and is based in Washington DC.

The WFDSA is a federation of more than 50 Direct Selling Associations (DSA) from around the world. The WFDSA is not comprised of individual companies, although board representatives typically do come from member companies. Companies may have access to WFDSA programs, activities and publications through membership in a DSA. CEOs of direct selling companies that operate in 2 or more markets may join the WFDSA CEO Council.

**Objectives**

- To pursue the highest level of ethical conduct in the global market place.
- To foster advocacy by partnering with government, consumer and academic leaders.
- To strengthen management of national and regional Direct Selling Associations.

Its programs and efforts include:

- Creating awareness and understanding of direct selling among people.
- Conducting research work on direct selling and publishing the data.
- Conducting seminars and training programs at international level.

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MLMIA\textsuperscript{14} (Multi Level Marketing International Association): Another worldwide organization working on similar lines of WFDSA is MLMIA. It was founded in 1985.
2.11 Marketing Mix of MLM Companies

Popularity of MLM companies is increasing day by day. Amway, Oriflame, Avon, etc. offer a variety of products. In every country, there are international as well as local players in the MLM sector. The marketing strategy of MLM companies is explained below:

The 6 P’s of MLM companies are:

✓ Product Mix
✓ Price Mix
✓ Place Mix
✓ Promotion Mix
✓ Plan Mix (Compensation plans)
✓ People Mix

2.11A Product Mix

On the basis of the characteristics present in the products sold by MLM companies, they can be classified into different categories.

The Direct Selling Association lists network marketing’s five industry classifications\(^{16}\) by the percentage of retail revenues they generated in 1999. (1999 sales: US $ 24.5 billion)

1 [Home/ Family care products, including cookware, cutlery and cleaning products]
✓ At the top of the list, the home/ family care products classification generated 33 percent of U. S. retail sales through Network Marketing in 1999.

2 Personal care products, including cosmetics, jewelry and skin care
✓ Personal care products ranked second with 24 percent of sales.

3 Service/Miscellaneous/other, including telecommunications, training and internet services
✓ Service/Miscellaneous/other claimed 17.9 percent of sales.
4  Wellness products, including weight loss vitamins and nutritional supplements
   ✔ Wellness products accounted for 17.8 percent of sales.
5  Leisure/educational products, including books, toys and games
   ✔ Leisure/educational products rounded out the listing with 6.4 percent, or slightly more than $1.5 billion in sales.

**MLM Industry classification by sales**

<table>
<thead>
<tr>
<th>Leisure &amp; Educational Products</th>
<th>Home &amp; Family Care Products</th>
<th>Personal Care Products</th>
<th>Services, Misc. and Other</th>
<th>Wellness Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.40%</td>
<td>33%</td>
<td>24.90%</td>
<td>17.90%</td>
<td>17.80%</td>
</tr>
</tbody>
</table>

**Characteristics of products sold by MLM companies:** A Network Marketing Organization looks for those products where it is possible for a direct seller to gain competitive edge over retail competition. A product sold successfully by MLM, meets at least one of the following key criteria. These
are that the product is novel, that it has mass market appeal that is easily demonstrable and finally that it offers repeat purchase potential.

1  Novelty: Novelty, in one form or another, is the essential ingredient for any new direct selling business. e.g.16: The Kleeneze Brush Company made a simple brush. There was nothing new about such a household item but the twisted-in-wire design of the brush and the idea of selling them door-to-door. The new design gave the salespeople something to talk about and to demonstrate. The success of Kleeneze is based on continuing to other novel product lines and other household products that are not readily available in multiple retail stores.

2  Mass Market Appeal:

   In a multi-level sales organization, direct sellers do not have territories; they rely on a mixture of neighborhood, social, workplace and other contacts. If the products on offer have a mass market appeal they will know that if they talk to everyone they meet in the course of their daily life, about their business and its products then they are talking to potential customers. e.g.: An Avon representative or Oriflame distributor; distributes their Catalogues on a clear understanding that every home represents a potential market for at least some items in the Catalogue

3  The capability of demonstration:

   In department stores, the items are simply displayed on shelves, whereas a demonstration in the private home of a party hostess enables them to be displayed in the environment for which they are intended. The demonstrator also has the opportunity to talk about how they are manufactured, and to point out particular quality and traditional features. Products like household cleaning appliances need demonstrations. This gives network marketing the edge over in-store demonstrations too.
4 **Repeat Business Potential:**

The MLM Organizations attempt to increase the personal sales volume of each direct seller, which is beneficial to the direct seller as well as the Organization. It also offers new product lines, which further gives rise to repeat orders. MLM companies like Tupperware, Oriflame provide low priced products with repeat business potential. The opportunity for repeat business is rather more difficult for those organizations selling high priced lines but not impossible. Just like, every direct sold vacuum cleaner has a further demand for dust bag and the occasional drive belts. They may not offer the direct seller the same commission prospect, but they do give a valuable opportunity for re-establishing contact with past customers and to gain referrals to new customers. This gives MLM organizations an edge over retail distribution system, if they sell product which have a repeat business potential.

**Other aspects of product mix:**

Frequent additions of new lines to the range on offer, serves to attract the attention of the customers, e.g. Amway introduced “Alfa” a type of solution useful in agriculture which assures 95% germination of seeds. Another technique, used by those MLM organizations is to give a rest to a novel product and reintroduce it at a later date. The turnover rate of salespeople (distributors) is such that, after a year or so, a reintroduced product will once again be novel to a large proportion of the sales force and to their customers.

2.11B **Price mix**

Opinion of people differs with regard to the prices of MLM products. Some find it lower and others higher. Generally, people view that a direct selling channel of distribution offers (or atleast should offer) consumer goods at retail prices below those at which they would be sold through conventional retail outlets. Many MLM business organizations claim that they really
offer price advantages to consumers since they do not bear the cost of advertising and wholesale distribution.

Marketing experts Berry and Richard* had given an analysis of the cost build up for a typical house wares product sold through a conventional retail store and through two types of typical DSO, in the form of a table.

**Managing a direct selling business**

<table>
<thead>
<tr>
<th></th>
<th>Supplier to multiple retail (%)</th>
<th>NM DSO (%)</th>
<th>Single level party plan DSO (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (less VAT)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Basic discount on RRP</td>
<td>50</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Advertising charge</td>
<td>5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Settlement discount</td>
<td>2.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Retrospective discount</td>
<td>1.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Retail Profits</td>
<td>-</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Wholesale volume profits</td>
<td>-</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>Royalty bonuses</td>
<td>-</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>Demonstrator commissions</td>
<td>-</td>
<td>-</td>
<td>22</td>
</tr>
<tr>
<td>Field sales management commissions</td>
<td>-</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>Dating gifts and hostess gifts</td>
<td>-</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Sales aids and sample kit subsidies</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Bad debts</td>
<td>-</td>
<td>-</td>
<td>0.5</td>
</tr>
<tr>
<td>Sales force motivation costs</td>
<td>-</td>
<td>2</td>
<td>3.5</td>
</tr>
<tr>
<td>Sales management and training</td>
<td>1</td>
<td>1</td>
<td>3.4</td>
</tr>
<tr>
<td>Marketing</td>
<td>1</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Salesforce recruitment costs</td>
<td>-</td>
<td>-</td>
<td>1.5</td>
</tr>
<tr>
<td>Sales admin. And</td>
<td>1</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Management Information Systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Warehousing costs</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Transport and distribution</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Property and other central services</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Contribution towards profit, finance and other operating costs</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Cost of products sold (Multiplier from cost to RRP)</td>
<td>21 (*4.76)</td>
<td>20.2 (*4.95)</td>
<td>28.3 (*3.53)</td>
</tr>
</tbody>
</table>

1] In the case of the conventional retail store, it is assumed that it is a multiple store retailer who deals directly with the suppliers, (discount 50%) had supply been through a wholesaler to a small retailer, with margins of 25 percent & 33% respectively, then the overall margin would be much the same as the 50% discount available to a multiple store.

```
Supplier 50% discount Multiple Store Retailer
Supplier 25% Wholesaler 33% Small Retailer
```

2] The cost breakdowns shown in the table are intended to be no more than a rough guide to the pricing policies that is adopted by DSOs marketing other consumer goods. For e.g. warehousing and distribution costs for a DSO selling fragile items of tableware would be very much higher than for a business selling either jewellery or fashion wear.

3] Many MLM organizations can operate on a low mark – up because they do not have to fund the substantial cost of rewarding field sales management. Traditional single – level DSOs also have to finance the working capital needed to support higher non –variable sales costs and the cost of offering demonstrators credit accounts.
4] Many MLM organizations in the US are opting for semi-NM hybrid sale plans where, there are virtually no corporate field sales management costs, and greatly reduced product distribution costs. Distributors pay for goods when they place orders, which commonly include the cost of delivery, and demonstrators are encouraged to sponsor others from the day they join the business.

2.11C **Place Mix (Distribution):**

When establishing a MLM, the first distribution decision made is whether or not to give purchase order accounts to every participant and whether it is practical to make direct deliveries to every participant. The original MLM companies, such as Amway, opted for a system whereby new participants placed orders with their sponsor, only when a participant had built their own sponsorship group up to a certain volume of monthly sales, would that individual become a direct distributor with the opportunity to deal directly with the company. To some extent this decision is based on the nature of the product. Household goods, particularly liquids and aerosols, are difficult and costly to ship and therefore low-value direct deliveries are uneconomic — even if they attract a small order surcharge. Companies have started using specialized software to keep a track of the complex genealogy of sponsorship links of the distributors.

MLM Organizations distribute their products in the following two ways:

**A] Person to person:** In such type of distribution, sales representatives are independent contractors. E.g. Avon ladies collect orders from their customers and place orders with the company on their own account at the end of each three week sales campaign. These goods are delivered directly to the representative, and it is their responsibility to deliver orders to each of their customers and to receive payment.

**B] Party Plan:** Companies like Tupperware use such type of distribution. Products which require time to demonstrate are generally sold through this type of distribution. Here, people are called in groups.
It involves the following stages:

1] The demonstrator collects orders from each guest at a party and combines them into one order which she sends to the MLM Company.

2] Over the following two weeks of demonstration, the party hostess collects payments from each of the guests, and either:
   a] Retains the money until the goods are delivered, or
   b] Remits the money by bank giro [payment through bank settlement] to the MLM Company

3] After a period of approximately two weeks or after the money has been received by the organization, the company dispatches the goods ordered at the party in one consignment, to either:
   a] The party hostess or
   b] The demonstrator who, in turn, delivers the goods to the hostess.

4] The demonstrator is rewarded in two ways, either money or gift

The following is a list of the aspects that need to be considered for proper distribution of MLM products:

1. Whether the nature of the product and the size of average order values are such that the cost of direct distribution would be more than the cost of delivery via the sales force and could any excess cost be charged to a direct seller as a delivery fee?

   In the United States, it is accepted practice for variable delivery costs, based on the distance delivered, to be charged on all deliveries. In India, generally the sales force itself delivers the goods to the customers, so no extra charges are taken for delivery.

2. When a direct seller makes a delivery to a customer, there is an opportunity to reinforce a good relationship between the two-and sometimes the chance of collecting another order.

3. Although direct order purchases require pre-payment, the opportunity to pay on delivery is still regarded by most customers
as a more attractive feature of the direct selling channel. It also
overcomes to some extent consumer dissatisfaction in the case
where goods ordered are not available or where substitute
products are offered.

2.11D Promotion Mix:

Direct selling is all about
building a channel of distribution
for consumer goods in which
media advertisements are
replaced by ‘live commercials’.
For FMCG manufacturers, it is a
golden rule of marketing that one
should never advertise without
first ensuring that the product has
already been distributed, and is easily available to those who see the
advertisement. If advertising takes place in advance of distribution, then
not only is the advertisement wasted but it is likely to generate a high level
of customer annoyance. The same is true for product-based PR
campaigns. For a MLM organization, this is even more true when the
business is not geared up to meet direct demand from consumers and
where it is difficult, if not impossible, for a consumer to make contact with
an unknown local direct seller. Generally, MLM companies do not embark
on national or even regional advertising campaigns for distributors.
However, some large MLM Companies do advertise. Avon Cosmetics has
advertised on TV from time to time. Now, Amway also places some high-
profile corporate advertisements in some large circulation consumer
magazines and newspapers. It has 3 purposes:

a) To support mouth publicity.
b) To create a background for sale.
c) To improve the morale of the direct sellers.
The strategy is usually to recharge the morale of the company’s direct sellers, and to influence the response of those who may subsequently be approached to join the sales organization. Such advertisements may not at first appear to be recruitment advertisements. They are just as likely to feature the quality of the products and the corporate image of the MLM Company and, almost as an aside, state that the products are available through a direct seller. The latter is not even necessary for the advertisement to have the same affect on recruitment. An advertisement in a national magazine or a good PR story is a powerful sales aid. Added to the Company’s own sales literature, they create a strong impression that the organization is both substantial and well recognized for the quality of its products. It is not appropriate to permit distributors to place advertisements for the Company’s products. It is also not appropriate to place recruitment advertisements or even attempting to mount a corporate recruitment campaign.

Local PR, on the other hand, is less of a problem to delegate to direct sellers. Regional newspapers like to feature local success stories of direct seller, who has achieved a company award. Many MLM companies have a PR department with the resources to help direct sellers to get this local publicity. Many Indian Magazines can be found with the advertisement of
MLM companies e.g. Reader’s digest. Amway has its own publication ‘Amagram’ to promote its products and direct sellers.

Success stories of distributors in MLM Companies are provided by their MLM Companies in Cassettes or in their news letters/magazines. These stories promote the MLM Companies very well, which in turn leads to increasing sales. At a joint WFDSA symposium\textsuperscript{18} on direct selling, views were expressed that the absence of advertisement creates doubt about quality of product. Therefore, product advertisement was advocated.

**Promotion tools for MLM**\textsuperscript{19}: Promotion tools commonly used by network marketers include the following:

- In-home meetings, parties and dinners.
- Telephone conference calls.
- Telemarketing.
- Three-way telephone conversations.
- Public opportunity meetings.
- Face-to-face networking events.
- Sampling or giving away products.
- Public speaking opportunities.
- Trade shows, expositions and fairs.
- Direct mail, sending letters or post cards.
- Sending e-mail and referencing web-sites.

1. **In-home meetings, parties and dinners:**

The in-home meeting, a popular marketing activity, has been around since the beginning of network marketing. It is used for promotion as well as recruitment of new distributors.

Organizing an in-home event begins with a list of potential guests or prospects. This list consists of family, friends, associates and people known to the network marketer. This group of people is known as warm market. The people in this warm market are called and invited to home of the network marketer, one at a time or in small groups.

**The warm market consist of:**

<table>
<thead>
<tr>
<th>Immediate family</th>
<th>Distant relatives</th>
<th>Neighbors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coworkers</td>
<td>Church members</td>
<td>Accountant</td>
</tr>
<tr>
<td>Barber/Beautician</td>
<td>Attorney</td>
<td>Customers/Clients</td>
</tr>
<tr>
<td>Landscaper</td>
<td>Day care provider</td>
<td>Contractor</td>
</tr>
<tr>
<td>Doctors</td>
<td>Dentist</td>
<td>Gardener</td>
</tr>
<tr>
<td>Exercise instructor</td>
<td>Grocer</td>
<td>Gas station attendant</td>
</tr>
<tr>
<td>Insurance salesperson</td>
<td>Landlord</td>
<td>Interior decorator</td>
</tr>
<tr>
<td>Loan officer</td>
<td>Librarian</td>
<td>Little League coaches</td>
</tr>
<tr>
<td>Mail carrier</td>
<td>Pet groomer</td>
<td>Stockbroker</td>
</tr>
<tr>
<td>Salespeople</td>
<td>Tenants</td>
<td>Teachers</td>
</tr>
<tr>
<td>Cable repairperson</td>
<td>Veterinarian</td>
<td>Zookeeper</td>
</tr>
</tbody>
</table>

* A referral is an extension of the warm market.

- The network marketer tries to make this in-home meeting a positive and effective experience like “Come over because we’re excited about a new business concept, and we want to introduce it to you”.
- Along with the prospects, the network-marketer also invites his sponsor or people in his upline to the meeting to help him to explain the business-opportunity.
• The network-marketer serves coffee and comfort foods and carries on with the meeting. Generally, he doesn’t ask them to buy anything. The prospects will either say they like it, or they don’t. Either way, the friendly relations will not be spoiled.

• While inviting the prospects for an in-home meeting, sometimes hidden agenda is adopted like “we just want to have some old friends over to get acquainted with some new friends—would you like to join us?” Later when the prospect finds that it was an “opportunity meeting” for a multi-level marketing concept, he will feel betrayed and the friendly relations are strained.

• Tricking someone into a business opportunity never works in the long run.

2. Telemarketing

Telemarketing provides the network marketer with telemarketing workbook that includes sample scripts. Network marketing companies use sample scripts for a variety of purposes. Like, one script may be designed to sell a particular product or product line. Another script can be used to invite people to his home or to a public meeting. And yet another script can assist him with hard-core telemarketing calling strangers and inviting them to learn about the business opportunity.

The network marketer uses these scripts according to his requirements. Most network marketers are afraid of what to say on the telephone when they’re just starting to build a business, and that time, these scripts are very helpful. The telemarketing can be applied to both the “warm market” as well as “cold market”

- “Warm market” consists of family, friends, and associates—i.e., the people known to the network marketer.
- “Cold market” means the people who are stranger to the network marketer.

Pros & Cons of Telemarketing as a Promotion Tool of MLM:
Pros:

I. **Little cost:** As people in the local area are called, so telemarketing is economical to use.

II. **Quick response time:** The network marketer doesn’t have to wait for a response; they know immediately whether the prospect is interested in the offer.

III. **Accommodates the schedule:** The network marketer can make calls when it is convenient for him.

IV. **It’s repetitive:** The Company or people in the upline provides the distributor with a telemarketing script. After learning the script, the network marketer can use it over and over.

Cons:

I. **Getting connected can be difficult:** Nowadays, with caller identification and voice mail, it is difficult to get connected to the prospect.

II. **Hearing isn’t the same as seeing:** People like to touch and feel a product before they buy it or possibly even understand it. Getting the point across may be difficult to do over the phone.

III. **No’s come easier:** Someone who might not tell no in the face-to-face conversation may find it easier to say no over the phone.

3  **Public Opportunity meeting:**

- The purpose of Public Opportunity Meetings is sale of product and attracting distributors.
- A Public Opportunity meeting is made up of motivational speeches, music, product testimonials, and an attractive display of the company’s products. These events usually occur weekly at local hotels, and they’re designed to attract existing distributors and their guests—the distributor’s prospects. The meetings provide information (to both new distributors as well as prospects) and are intended to spark interest in the
business opportunity. Public opportunity meetings last sixty to ninety minutes, but the individual questions and enrollment process can extend the time considerably.

- At a public opportunity meeting, an **experienced distributor** delivers a brief presentation to provide an overview of the company. Then other distributors share their experiences with the company’s products and services. When a network marketing company sells quality products, the products frequently produce positive results. Weight loss, relief from arthritis, increased energy, lower cholesterol levels, a better night's sleep, a better attitude, and more confidence are some of the common results discussed at these meetings.

- These **first hand experiences** motivate not only the distributors at the meeting but their guests (prospects), too. The meeting captures the prospect’s attention, provided the necessary information is given and validation of products is provided by testimonials.

- Before the meeting ends, the guests are encouraged to get together with the distributor who invited them to the meeting. It is the time to **close the sale** now. Now, everywhere in the room guests are meeting with distributors, giving their feedback and usually cheque books come out of pockets and new distributors are enrolled. The selling environment hardly ever gets better than this. The guests will be excited, motivated, and most likely ready to join forces with the network marketer, either as a distributor or as a retail customer of his products or services.

- If the company’s opportunity meetings are the type that **pressure** people into buying products & services or joining the business as a distributor, then the friends will be alienated and relationship will be damaged.

4 **Web Sites:**

Nowadays, it is hard to imagine a network marketing company without a web-site. Sites like [www.oriflame.com](http://www.oriflame.com), [www.amwayindia.com](http://www.amwayindia.com)
are common. The site is particularly useful for providing services-for example, ordering products and downloading forms-to customers and distributors any time of the day or night, as well as sending information to prospects. The web-site address is included on business cards and stationary and also promoted to prospects via e-mail, direct mail, the telephone, and other communications.

Many network marketing companies offer ‘self-replicating web-sites’ to their distributors. These sites use the latest technology so they can include audio sound clips and video. The company then invites its distributors to buy a self-replication of the site for a monthly fee. The fee will depend on the content and the technology that the distributor wants to include on the site. They’re called self-replicating sites because the distributors can customize these to include their photographs and personal information, such as their phone number, e-mail address, and ground mailing address. The distributors don’t need to reserve a separate web-domain because the sites piggyback on the company’s web address. Sometimes, network marketing companies provide self-replicating websites to their distributors free of cost.

Advantages of web-sites

- **Reliability of the content:** By providing the content for these websites, distributors are assured that the information they’re disseminating to the public is accurate and up-to-date. When it is necessary or time to change the content of the pages, the company can do so automatically by updating the original site.

- **Unification:** By using a self-replicating site, distributors are all promoting the same message about their products and opportunity. No one needs to spend valuable time trying to gain a competitive edge over anyone else.

- **Consistency:** Unlike the human distributor, the web-site always looks the same, sounds the same (if it includes audio) and delivers a perfect presentation every time.
- **Revenue generation:** If the sites are designed to accommodate e-commerce, they generate revenue without human intervention. Many of the sites accept applications from new distributors who can use their credit cards to pay the enrollment fees.

5 **Brochures:**

People want to see something in print, such as a photograph of the product, before they buy. They want to read a description of how the product works [its features] or what it does [its benefits]. They want the details about the business opportunity, and they're not satisfied just hearing the details from the network marketer. Marketing brochures fulfills the need for the same. Some people like to review the brochures as a memory enhancer.

Upon joining a network marketing company, the network marketer receives several copies of the company’s brochures. Each company has two types of brochures - a *product brochure* and a *business opportunity brochure*. The network marketer can even buy additional brochures from the company.

**Brochures are used in the following ways:**

i. Brochures are sent to existing customers, especially when a new product is introduced.

ii. Brochures are used in face-to-face meetings to show photographs or to emphasize details. The prospect is asked to see a brochure and then lead through it. If he seems interested, the brochure is given to him. If not, it saves the money of the direct seller.
iii. Business card is attached to the brochure, or stamp or imprint the name, address, telephone and fax numbers, e-mail address, and web-site of the direct seller on the back of the brochure so that the prospect can contact him.

6 Direct mail, sending letters or postcards:

Direct mail - the process of sending letters, postcards, and brochures by mail to elicit a response - provides the opportunity to reach large numbers of people, including warm and cold markets. Alongwith or instead of printed materials, the network marketer mails audio-and video tapes and product samples. This is generally followed in advanced countries like USA. A direct mail campaign requires:

a) A list of names and address of the people he wants to reach.

b) And a mailing piece, which includes an envelope and the contents, such as a letter or audio tape that presents the "offer" that has to be sold.

c) Postage.

Advantages

i. Reaches large number of people, fast: Thousands of people can see the message all on the same day, or within few days, with direct mail. It’s a fast way to spread the promotional message quickly. Telemarketing, by comparison, allows reaching only one person at a time.

ii. Doesn’t intrude: Direct mail arrives in the mail box without disturbing anyone. The message is received when the recipient decides to open the envelope or package, play an audio-or-video tape, or use the product sample.

iii. Delivers a tangible item: People, who like to see and touch, rather than listen to a phone presentation, may respond faster and more favorably to direct mail after they've had an opportunity to read, re-read, and consider the offer. A product sample received in the mail and used successfully may result in an immediate call back with a request to order the product.
iv. **Saves time:** People tend to be busier than ever, there may not be an opportunity to connect by phone. Direct mail saves the personal intervention and still delivers the message.

**Disadvantages**

a. **Requires expertise:** Copy for direct mail requires considerable expertise. Selecting the right word for a headline, including a particular phrase in a letter, choosing the right colour for a brochure or postcard - each of these decisions and many others can make or break a mailing.

b. **Waste:** Lots of people think direct mail is junk mail. If they have no interest in the offer or don’t like the look of the envelope or the postcard turns them off, the mail gets deposited in the wastebasket.

c. **Costly:** The network marketer has to pay for the use of a mailing list, buy envelopes, pay to print or photocopy letters, buy tapes or brochures, buy postage, etc. A lot of money is thus wasted, if the mail doesn’t get opened.

7 **Free Samples:**

The network marketer resort to distribution of samples [e.g.: small pouches of shampoos, tester of lipsticks, etc] of the products of his company. He distributes it within his warm market. After using the samples, if the people like it, they place an order with the network marketer and may even think of joining as distributors themselves, if the business opportunity is really good.

8 **Three-way calls [conference calling]:**

It means a conversation that includes three people. When the network marketer is recruiting a prospect, he wants his upline to assist him
in closing the sale. While he and his prospect are on the phone, he connects his upline by phone for a three-way conversation [this is also called conference calling]. It’s a very effective recruiting and training technique.

2.11E Plan mix [Compensation plans]:

Business Plan is very important from the MLM companies’ point of view as well as distributors’ point of view. For companies it is a tool for attracting more distributors as well as keeping in control over the commission to be paid to the distributors. From distributors’ point of view, plan is important as their earnings depend on it. Therefore, plan is an important factor which affects the choice of distributors of MLM companies.

Following are the major compensation plans used by different multilevel marketing companies.

I. The binary plan
II. The unilevel plan
III. The stair step breakaway plan
IV. The forced matrix plan

I. Binary plan:

This plan involves recruitment of only two people in the front line. (Also known as immediate downline) Every distributor can have only two distributors under him in the frontline. e.g. Mr.’ A’ will sponsor two people, & the first two people Mr. A sponsors are his frontline, which means they will be on his first level, (refer to fig) his downline builds under these two people, each of whom represents a “leg” of his organization. As he sponsors additional people he has to place them under one of the first two legs and, they may be much level below him.

The following fig represents a Binary plan
Here, A recruits B & C under him. B recruits D & E under him and so on. According to Ken Rudd, former director of a network marketing company, “This can be a good plan in the right circumstances, since many people have been able to earn huge money quickly because they are handsomely rewarded for recruiting. However, that is also the plans downfall. You need sales of products/services to create longevity for a company in network marketing. The Binary tends to attract people who want to make quick money, and those people don't last very long”.

**Advantages of Binary Plan:** It is very easy to reach a higher level speedily in a Binary Plan, since only two members have to be recruited. It is easy to manage a sales force under two legs.

**Limitations of Binary Plan:**

The major downfall of the plan is Balance. This requires the distributor to have equal number of members in the downline in both the legs, to earn commission on sales of products sold by any of the legs. This actually blocks the income of the distributor in the upline because it is not
always possible to have same no. of distributors in both the legs in the downline. E.g. If the distributors in the first leg generate Rs. 1000 of sales revenue, while the distributors in the second leg generate Rs.10000 of sales revenue, the distributor at the top (sponsor) will not qualify for a commission.

II. **Unilevel plan**: It is the opposite of the Binary in many ways. There is no restriction on the frontline distributors. The Binary is heavily front-end loaded, i.e. it pays well when you recruit new distributors, but it is weak on the back-end residuals. Though there is no restriction on the frontline distributors, there is restriction on the number of levels, that one distributor can have. Most Unilevel plans stop at seven levels simply because the more levels in the plan, the more money the company has to pay out, or the smaller the percentages it can afford to pay per level. The percentage differs from company to company. Some pay equal to all levels, some pay higher to higher levels and lower to lower levels.

In unilevel plan, if the commission percentages are equal for each level – that is, say, each level pays 5 percent, and then it is possible to make as much money from the bottom level of the sales organization as from the top level. In some unilevels, one or more levels will pay higher percentages.

The unilevel portion of this plan (as in fig) pays 10 percent on level 1 & 2, 15 percent on level 3, and 5 percent on level 4 & 5. The commission of 15 percent on the third level is paid to encourage the distributors to reach into their downlines and help as many people below them as possible.

**Advantages of the unilevel plan:**
- There is no limit on the number of frontline distributors.
Unilevel Plan

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<thead>
<tr>
<th>Level</th>
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<tr>
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<td>Level-5</td>
<td>5%</td>
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• It can pay generational bonuses. That is, it can pay a bonus on a specific group of people—a generation—in the down line, e.g. Mr. A rises to the rank of Director, and then he helps a distributor below to qualify for Director, too. When that distributor becomes a Director, everyone under that distributor forms a generation. Mr. A can earn an additional bonus (5% is the common number) on the sales volume of that generation. Mr. A was already earning a percentage of sales by those people in the generation who fell within the first five levels of his down line. But now he is also earning a bonus on the sales volume produced by the generation.

Limitations:
• The unilevel plan cuts up the money to share it with everyone, and consequently it takes longer to make a lot of money as compared to Binary plan.
• There is a limit on the number of levels.

III. Stair step Breakaway Plans
In this plan, a distributor qualifies to breakaway his downline from his existing upline once the downline reaches a certain level of sales. There are two parts of the plan. The front end of the plan is the staiistep, and the back end of the plan is the breakaway. The staiistep usually consists of three or four steps that increase by rank and profitability as the distributor achieves progressively higher sales volume in a specified time period. The sales of distributors below the sponsor are part of his personal group sales volume. As this personal group volume increases, he 'stairstep' his way to higher ranks and eventually to the backend of the plan. At the backend, he qualifies to breakaway, taking his downline with him. At that point, every person under the distributor is considered a generation, and now his sponsor will earn a bonus on the group sale of the generation. The distributor gets bonus overrides from three to six generations of breakaway qualifiers. There is unlimited frontline sponsoring in this plan.
Each rank is assigned a percentage, which denotes the discount or percentage rebate from the company that the distributors at that rank are entitled to earn on their purchases from the company.

In the given fig, a Sales Executive can purchase a product at a 20% discount, while a National Director is entitled to a discount of 40%. Each generation pays a 5% bonus, but that's not a standard, the percentage can vary from company to company.
Advantages: The Stairstep Breakaway plan is the oldest and predominant compensation plan. New companies opt for simplifying the Stairstep Breakaway and requiring low qualifications for earning bonuses. There is no limitation on the number of frontline distributors or the levels.

The payout in a Stairstep Breakaway can be large and attractive. An aggressive distributor can sell a Rs.20,000 package (of products or services) to someone and earn Rs.5000. That’s a lot easier to do for some people than to build a sales organization over a longer period of time and earn a commission that amounts to Rs. 700 or a Rs.1000 a month as would be the case with a pure Unilevel.

Limitations:
1. This Plan is “front-end loaded”, i.e. the distributor purchases a large quantity of product costing a considerable amount of money to reach a higher rank. Front-end loading has created a negative reputation for network marketing as people sometimes end-up with a garage full of products they cannot sell.

2. The distributor at the top of the staircase may not be eager to see people under him earn promotions. The distributor at the top earns more money by keeping people under him than he does when they break away. Some companies solve this problem by establishing a bonus percentage for a break away that is equal to or greater than the percentage earned in the Stairstep prior to the break away.

IV. Forced Matrix Plans
In this plan, a matrix is decided with the limited width and depth. Then, a distributor is recruited for each available space in the matrix, and when each space is occupied the distributed starts building a new matrix.

For example, if Mr. A is building a 3 x 5 Forced Matrix, (as in fig), he can have 3 legs and 5 levels. Each space in the matrix is an opportunity for Mr. A and the distributors. As the new distributors join the
organization, they are automatically assigned to a space by a computer program that’s especially designed to build Forced Matrix plans.

![Forced Matrix (3 x 5)](image)

Note: Levels 3 to 5 are not shown in the diagram

**Advantages:**
1) Distributors like the plan because they anticipate that other members of the sales organization will create ‘spill over’ to help fill the open spaces or even fill the spaces for them. In other words, as more senior distributors recruit new members, those members are placed in open spaces that are under the less senior distributors.

2) Some Companies prefer Forced Matrix plan, because it is easy to attract new distributors and it forces them to build an organization within a defined grid. It is particularly popular among Internet marketing programs.

**Limitations:**
1) Distributors are many times led to believe that once they recruit a few people, they can depend on the organization to fill in all the open spaces.

2) When distributors do their job and recruit new distributors, they do not have any control over the placement of new distributors.
3) The Forced Matrix creates a ‘something for nothing philosophy’ as a lot of people join with unrealistic expectations as they are given impression that they would not have to do anything and the computer would fill up their matrix.

4) The matrix is limited by width and depth. For example, a 3 x 5 matrix is limited to three legs and five levels. That means the distributor’s income is limited by the size of the matrix.

**Hybrid Compensation Plans:**

Previously, it was easy to categorize the compensation plans, but nowadays the companies are adopting hybrid plans. The **best features** of two or three plans are combined by the companies. This has been advantageous for both the distributors and the companies. No two compensations plans are alike. A unilevel plan can be used by two companies but those plans can be vastly different in the way they reward their distributors. There are no standard rules and regulations for plans. A plan can be created by a company that is unique to its organizations and it can be even revised. This provides **flexibility** but then it has a limitation that different people will interpret it in different ways. Michael Sheffield\(^2\), a network marketing consultant, says “Most networkers cannot explain their own company’s compensation plan. These plans are the most misunderstood aspect of network marketing.”

A company may adopt any plan but it should be balanced i.e. should give due consideration to the interests of not only MLM companies but also distributors. It should give revenue to the company and satisfactory income to the distributors.

**A Balanced Compensation Plan has the following features:**

a] Pays the distributors fairly.

b] Allots reasonable purchase volumes so the distributors can easily remain in the organization.
c] Rewards new distributors so that they can begin to make money quickly.

d] Offers benefits to distributors who work part-time.

e] Provides bonuses and substantial percentages for seasoned full-time distributors to maintain their loyalty to the company.

2.11F **People Mix:**

MLM companies have to give special consideration for recruitment, training and motivation of distributors as they are the only sales force.

In network marketing, the most attractive feature is that the network marketer is in control of his own business. There are no bosses, nor employees; no one can lay off, any transfers, no one to tell that one has to work more or fewer hours. With the exception of corporate rules and regulations, all authority rests with the network marketer. The time of day or night that he works, the marketing tools that he uses, the product mix that he sells, the people that he sponsor, and how and when he trains them-all of it is up to him.

This necessitates for the MLM Company that the people with right attitude are recruited, trained and motivated.

**Profile of distributors who are commonly seen in network marketing:**

1) People who are looking for a part-time income or an additional profit centre, or who are perhaps unable [may be for family or health reasons] to take on full-time employment.

2) Entrepreneurs or self-employed people.

3) Unqualified manual workers or shop-workers, people whose jobs are redundant or who are unemployed, people who feel held back by discrimination on the grounds of race or colour, age, sex, education, experience, social background or medical condition.
4) Professional people or people from a vocational or clerical background.
5) Executives, managers or directors, chairpersons of corporations, or people aspiring to these positions
6) Executives who want to get out of the corporate environment and start their own business.
7) New mothers who want to start a home based business.
8) Student who want to generate extra income.

According to Jim Sirbasku\(^2\), CEO of Profiles International based in Waco, Texas “There are three personality attributes of people who will perform at far above average levels in network marketing business. These attributes are dominance, influence, and motivational energy.”

- **Dominance**, means aggressiveness, desire to lead, and the power to control situations. People with this characteristic are by nature-positive, problem solvers, and ‘take charge’ types.

- **Influence**, is a typical characteristic of people who circulate in a large circle of friends and acquaintances, who meet new people easily and frequently, and whose opinions and judgment are respected. They are persuasive, believable, and able to help others feel confident and optimistic. Others often look to people who have influences for leadership and solutions to problems.

- The third characteristic, **motivational energy** shows up in self-starters. They bring a high degree of interesting and enthusiasm to the things they have decided to accomplish. These are people who take the initiative, don’t need someone to prod them, and find great satisfaction in their work.

**Recruitment:** In MLM companies like Conibio, Amway and Tupperware, recruitment of distributors takes place at **Public Opportunity Meetings.** These meetings are made up of motivational speeches, product testimonials, etc. The business opportunity is presented to the prospects and then interested prospects are enrolled in the company. This way the recruitment takes place.

**Training direct sellers:** Training is imparted by the MLM organizations as well as the sponsor distributor.
Coverage: Training has to cover these three distinct tasks. In managing the sales force of a MLM Company, there are three quite distinct training tasks:

- How to sell the products?
- How to promote the marketing plan and sponsor people?
- How to handle objections about product, price, plan, etc.?

Training covers two major aspects – product sales training and marketing plan training.

1) **Product sales training:**

A typical new recruit to a MLM organization, who may have never before sold anything to anyone, wants to know the best way of going about the task of selling. Offering several optional selling methods without adequate training is risky. So the new recruits are trained in product sales. This training covers the methods of selling, the details of which are as follows:

a) The direct sellers are trained to wear or use a product in such a way that it invites interest and thus orders.

b) They are also trained to deliver Catalogues with the proven expectation of orders when the Catalogues are collected.

c) Some MLM companies marketing their own brand of regularly used household and personal products have a sales strategy based on encouraging self-use by their direct sellers and suggesting that they should simply ask prospective customers to switch brands for a while. If a distributor uses the product to the point where they have developed their own positive enthusiasm, then this process of suggestion becomes quite natural. Customer frequently asks questions like, “Do you use the Product?” The distributor feels more comfortable while answering the question. Sales become the natural outcome of shared enthusiasm. It is for this reason that successful MLM organizations devote substantial training efforts to ‘selling’ the product benefits to their sales force and not looking upon them as an intermediary in the selling process.
d) Party plan sales training is more demanding. It is a selling process that requires careful training in every stage of the process, finding a hostess, helping her to invite guests and to organize the event, how to introduce the MLM organizations to the guests, preparing a product display, making product demonstrations, how to collect orders and how to book further demonstrations. MLM organizations that are based on party plan [e.g. Tupperware] or group demonstration techniques put great emphasis on regular training session and also in giving new recruits the opportunity to do their first demonstration with some supervision or assistance.

2) **Marketing Plan Training:**

It is very important to train the distributor about the marketing plan and its presentation to prospective distributors. In this training, the complexities of the company’s commission and bonus structure are made known to the new recruits.

Distributor is made known about the commission structure of the plan. Number of commission levels, value of products to be sold to reach the highest level, etc. is taught in this training. Calculations of royalty payments and ‘override’ commissions are taught in this training. The training session covers all the above aspects of the marketing plan, So that the distributor can present the marketing plan properly to people whom he is going to sponsor.

**Methods of training:**

- The training is given through seminars (Modicare), classrooms (Amway), on-field or individually by the sponsorer to the new recruit
The distributors are given books to read, videos to watch and tapes to listen on network marketing. This leads to self development.

Training opportunities are abound in Network Marketing. While Network Marketing Companies frequently sponsor regional and national training programs, individual leaders with in a company will also invest time to train and develop distributors. Much of this training or for solving the problems faced by the distributors, for providing additional information to the distributors, etc. is given by telephone.

2) **Motivation**

Joining a network marketing company is easy—almost everyone can afford it—and conversely, it’s easy to quit. When the distributors begin to face the inevitable frustrations and setbacks that every network marketer encounters, they may want to quit. That’s why their leader stays in touch with them and helps them through challenging times. They need to feel good about themselves and their decision to become network marketers. And they need to see results. Motivation is done by the MLM companies as well as the sponsor distributors. A belief structure about the company, product, Network marketing and their ability to do it, is developed amongst the distributors. Following are some of the ways used to encourage the members of the down line to stay involved in Network Marketing for the long term.

2a) **Motivating by assisting in sales and sponsorship:**

The distributor helps the down line to make a sale or sponsor another new distributor as quickly as possible. The easiest way to do so is by using the three-way call. The people whom the leader contacts on these calls usually belong to the down line’s warm market. These people may buy or join if the chances are good. Nothing is more exciting for a new distributor than the first sale or first sponsored distributor.

In an attempt to help a distributor earn money faster, and as a strategy to increase the depth of the associate’s down line, leader may
even place his personal recruits under their distributors. This act gives the distributor a tremendous boost of confidence.

Distributors who earn even a small amount of money within the first 30 days of starting their network marketing business are likely to stick with it. Most people who become network marketers are not looking to make millions. They hope to make enough money to cover a car payment or a house payment, or to earn a little extra for their family’s enjoyment.

The first cheque motivates them to stay in the business.

2b) **Motivating through mission (Job satisfaction):**

Over the years due to computerization, automation, job opportunities are reducing. Therefore, getting a satisfying job has become difficult. However, to support themselves people have to work and want to feel that their work is meaningful. They want to make a difference in someone’s life, perhaps their own, perhaps a family member’s and almost certainly their customer’s, some people are more motivated by mission than they are by anything else. A job with a mission provides the distributors a great job-satisfaction which again motivates them.

2c) **Motivation by praise:**

It is very important to praise the people in the down line. The distributor makes it a practice to find good in other people. When he does so, he verbalizes his findings. He tells people what he liked about them. These words of praise motivate the down line and develop a positive attitude among them.

2d) **Motivation through awards:**

Distributors who achieve targets are awarded in functions organized by the MLM Companies. This dignity and recognition provided to the distributors, motivates them to work harder and achieve results. These award functions are organized by the companies at district, state and national levels. E.g. Recently, a distributor of Tupperware, Rajani Chittle aged 68 years, a retired government employee, was awarded a four-wheeler [Maruti-800] for
achieving sales of Rs.80,000 in 3 months. She was titled the ‘Power Woman’ of the year. The sales target was of Rs. 36,000 in 3 months. The sale made by Rajani Chitale was much more than that. She is providing guidance to 38 consultants in her downline. She was placed at the highest position in the Management of Tupperware for a day and the decisions taken by her on that day were applied on the operations of Tupperware all over the country.

**Suggestions to motivate the people in the down line:**

Trainer Doug Firebaugh[^1], president of Passion Fire International based in Louisville, Kentucky, offers these suggestions for motivating the people in the down line:

- Recognize your associates publicly. When you’re on a conference call with a group of your associates or when you’re sending the group a message by e-mail, publicly praise your associates for even their small attempts to get their business started.
- Work with your associates one-on-one. Personal attention is a motivating factor. People thrive on it, and it makes them feel like they’re adding value to the organization.
- Be accessible! Many of the superstars in the network marketing industry are not accessible. A leader whom you can reach on the phone or by e-mail creates a feeling of confidence among associates.
- Arrange special events for your associates. Events where something important is said to network marketers; by great leaders in Network Marketing. Join your leaders at these events. Doing so is an incredible bonding experience. Anytime you can get your group together, do something to celebrate the victories in your organization. If you can’t do it in person, get everyone on the phone.
- Send hand written notes, say things like “I believe in you!” and you’re going to the top! Write it on thank-you cards and send them to your associates.
Nowadays, hand written notes are unexpected, and when you receive one, you know it’s personal, and it was directed to you. Use personal audio cassette recordings. Get a ten-minute cassette and record a message to an associate. Tell her that you’re proud of her because of her accomplishments, and you just want her to know how much you appreciate her. Your associate will listen to that tape over and over. It’s not just motivating; it’s a belief-building factor.

According to Doug, “You can use many other ideas to motivate your team. Whatever you do, be sincere. Also, use words of praise and motivation to help your associate’s stretch their talents. Everyone has a comfort zone and you don’t want them to get comfortable in it. Praising them for something well done is a way to motivate them to take the next step forward.”

2.12 **MLM and Pyramid Scheme**

The growth of MLM Industry, has attracted many fraudulent operators who are peddling ‘get rich quick’ schemes in the name of multilevel marketing. These schemes are ‘pyramid schemes’ (operating in the guise of MLM) in which innocent people get exploited. The terms MLM and pyramid schemes are used synonymously but there is a significant difference between the two concepts.

Even though pyramid schemes are structured like network marketing opportunities, pyramids are illegal because they reward people for their recruiting efforts & generally over look the marketing & selling of merchandise. Inevitably, pyramids collapse because sooner or later, the members stop recruiting, and most of the people involved, except perhaps for the people at the very top of the pyramid, lose their money.
All over the world, fraudulent tendencies of pyramid schemes have been observed. This has affected the reputation of genuine MLM companies. Thus, it becomes necessary to distinguish between the two. **Multilevel Marketing:** MLM is a direct selling program that pays distributors for their own sales, as well as for the sales of multiple levels of distributors who are below them in the company's hierarchy. In Multilevel marketing, independent distributors represent a network marketing company and sell directly to consumers rather than through conventional outlets, such as retail stores.

**Pyramid Scheme** is defined as an illegal business superficially resembling legitimate network marketing companies that generate income solely from recruiting new members and charging them fees, with no actual product or service being moved.

A) Pyramid schemes now come in so many forms that it may be difficult to recognize it immediately. However, these all share one overriding characteristic. These promise consumers or investors large profits based primarily on recruiting others to join their program, not based on profits from any real investment or real sale of goods to the public.

Some schemes may pretend to sell a product, but they often simply use the product to hide their pyramid structure.

There are two tell-tale signs that a product is simply being used to disguise a pyramid scheme:

1) **Inventory loading** [recruits are forced to buy more products than they could possibly sell].

2) **Lack of retail sales** [sales are made only between people inside the pyramid, not to the public in general].
B) Some people confuse pyramid schemes with multilevel marketing. Unlike pyramid scheme, MLM’s have a real product to sell. More importantly, MLM companies actually sell their product to members of the general public, without requiring these consumers to pay anything extra or to join the MLM system. MLM’s may pay commission to a long string of distributors but these commission are paid for real retail sales, not for new recruits.

Legitimate MLM
- Legitimate MLM companies offer a genuine business opportunity based on the sales of quality products to consumers. They routinely offer consumers satisfaction guarantees or cancellation rights so that the consumer may return the products for replacement or refund if he/she is dissatisfied.

Legitimate MLM companies strongly discourage overstocking of inventory and provide participants leaving the plan with an opportunity to return any unused, saleable merchandise to the company for a refund of not less than 90% of the sales person’s net cost.

Legitimate MLM opportunities may be taken up with minimal start up costs and little or no inventory investment. Even modest entry fees may be refundable if the new direct seller decides not to pursue the opportunity.

The sales and marketing plans of credible direct selling companies are based on the progressive recognition and reward of direct sellers for the development of a customer base for consumption of the company’s products. The development and

Pyramid Selling
- Pyramid schemes have no such commercially viable product sales base.

In contrast, pyramid schemes often encourage or require large stocks of non-refundable inventory and disappointed scheme participants are then left with stock which they can neither sell nor return.

Conversely, pyramid selling schemes often require high entry fees and/or substantial "investment" in inventory and neither are refundable. This is because pyramid operators make their money from new recruits to fund their schemes.

Pyramid schemes, on the other hand, offer ‘get rich quick' schemes to induce participants to buy "ground floor” or “leadership” positions. In pyramid selling schemes there is no viable.
stability of a direct seller’s business is dependent on satisfied consumers and fairly remunerated direct selling members.

- Every salesperson subscribes to the industry code of ethics.
- No code of ethics exists.

All over the world, fraudulent tendencies were being observed, so many countries to protect the interests of innocent people, either made separate statute or appointed monitoring authority with the objective of distinguishing between MLM and pyramid schemes.

The concept of MLM has originated in the west. Thus, the various definitions given by statutes by different states viz, Georgia, NY, Texas, North Carolina, etc. have been listed below. [There is no such feature given by any statute in India, neither at state level nor at central level].

**Regulatory Framework for MLM in Foreign Countries**

2.13 **Legal Aspects of MLM, given by FTC [Federal Trade Commission, USA]**:

Anti-pyramid statutes are designed to protect individuals from being defrauded through illegitimate programs which lure participants with the promise of easy money by compensating them from the investments of additional participants rather than from legitimate product sales. These programs are called ‘pyramids’, “Chain-Marketing”, “Airplane plans”, “Network Marketing” and many other names.

Federal & state regulatory agencies have sought to proscribe [forbid by law] such illegal activity in multiple ways, including the use of anti-pyramid laws.
**Legislative Intent & Judicial Interpretation:**

As a practical matter, it is impossible for legislators to anticipate the infinite creativity of individuals who devise, implement and promote legal and illegal marketing programs.

Accordingly, anti-pyramid and multileval statutes, like most consumer protection legislation are drafted and interpreted very broadly so that they might encompass all of the possible permutations of an illegitimate scheme, and thus have a jurisdictional basis for regulating and eliminating them.

Following are the two-fold aspect to analyse a multilevel marketing programme.

**The first Aspect** involves a review of the theoretical or conceptual design of the compensation plan. That means, does the compensation plan, (as written) appear to compensate participants.

b) merely for the introduction of additional participants into the program.

OR

c) for the sale of goods or services to “end consumers”.

- If it does the former (a), it constitutes a pyramid.
- If it does the latter (b), it will pass through the first test of the analysis.

A vast majority of new MLM companies do not run a foul of this first hurdle. Most of the companies have problems with the second component of the analysis.

**The Second Aspect** is “operational analysis” of the compensation plan i.e. what in fact do distributors spend their time doing, not withstanding the conceptual or theoretical design of the plan i.e. what type of activity does the compensation plan intent- the recruitment of additional distributors or sales. Despite the sale of products or services, a plan can nevertheless constitute a pyramid. The operational analysis involves factual and
subjective determinations. A set form of factors have been developed to evaluate compensating programs.

STATE STATUTORY APPROACHES

A) DIRECT APPROACH [Direct test to identify a pyramid/MLM]

Some state laws specifically define and regulate MLM plans. Georgia’s statute provides a typical definition of a multilevel marketing company.

“Multilevel distribution company” means any person, firm, corporation, or other business entity which sells, distributes, or supplies for a valuable consideration, goods or services, through independent agents, contractors, or distributors at different levels wherein such participants may recruit other participants and wherein commissions, cross-commissions, bonuses, refunds, discounts, dividends or other considerations in the program are or may be paid as a result of the sale of such goods or services on the recruitment, actions or performances of additional participants.”

Thus, the features of a Multilevel Marketing Company or multilevel marketing plan are as follows:

- It is a person, firm, corporation or other business entity
- It sells, distributes or supplies goods or services through independent agents, contractors or distributors.
- Participants may recruit other participants at different levels.
- Compensation to participants is paid as a result of:
  a) the sale of such goods or services
  or
  b) the recruitment, actions or performance of other participants

B) INDIRECT APPROACH [Indirect test to identify a pyramid scheme]

The vast majority of states indirectly define “a pyramid”, “Chain distributor scheme”, or “endless-chain scheme” and proscribing such programmes. Regardless of the name used by the statutes, their intent is to prohibit plans or programs that reward participants, either directly or
indirectly, on the basis of recruitment or enrollment of other participants rather than compensating them for sales of products or services to end consumers.

**New York’s** definition of a “Chain distributor Scheme” is more precise, but nonetheless representative of anti-pyramid statutes.

A “**Chain distributor Scheme**” is a sales device whereby a person, upon condition that he makes an **investment**, is granted a license or right to solicit or recruit for profit or economic gain, one or more additional persons who are also granted such license or right upon condition of making an investment and may further perpetuate the chain of persons who are granted such license or right upon such condition. A limitation as to the number of persons who may anticipate, or the presence of additional conditions, affecting eligibility for such license or right to recruit or solicit or the receipt of profits therefrom, does not change the identity of the scheme as a chain distributor scheme.

Pyramids or endless chains are characterised by “the payment by participants, of money to the company in return for which they (the participants) receive -

1) the right to sell a product
2) the right to receive, in return for recruiting other participants into the programme, rewards which are unrelated to sale of the product to ultimate users.

Thus the features of a pyramid scheme are:

- The participant pays money to the company
- The participant receives the right to sell a product (or services)
- The participant receives compensation for recruiting others into the program
- The compensation is unrelated to the sale of products (or services) to the ultimate user

MLM company must guard itself against being classified as a pyramid.

**Thus, the definitive [and amorphous] test is “what is the**
emphais of the program?” If the emphasis of an MLM program is on recruiting [rather than product or service sales], it will be a pyramid. The FTC’s Website offers these tips to avoid an illegal pyramid scheme.

- Avoid any plan that offers commissions for recruiting additional distributors.
- Beware of plans that ask new distributors to spend money on high-priced inventory.
- Be cautious of plans that claim you’ll make money through continued growth of your **downline** - the commissions on sales made by new distributors you recruit - rather than through sales you make yourself.
- Beware of plans that promise enormous earning or claim to sell miracle products.
- Do your homework! Check with your local Better Business Bureau and State attorney general about any company you’re considering, especially if the claims about the potential earnings or the product sound too good to be true.

Thus, FTC comes down heavily on pyramid schemes.

### 2.14 Laws Relating To MLM in Philippines

Besides USA, few other countries have legislative provisions relating to MLM or Pyramid, one of them is Philippines.

**According to Rules & Regulations Implementing Article 53 of the Consumer Act of the Philippines [Republic Act 7394]**

“Under a Chain Distribution Plan or Pyramid Sales Scheme, a person is persuaded to join into the scheme by paying a fee for which the person is given the ‘right’ to recruit others into the scheme and derive commission or profit primarily from their recruitment. Such schemes may involve the sale of a product or service as a subterfuge, in which cases, the product or service is more often than not either over-priced or is of little value.”
Thus it has two major features:

**First**, a promoter persuades recruits to buy products, services, credit, title or rank whereby the recruits can receive income primarily from the mere introduction, recruitment or sponsorship of other participants into the scheme rather than from the marketing & sale of products.

**Second**, it is pyramiding when the profits of the persons using them are derived primarily from the recruitment of other persons into the plan or scheme rather than from the sale of consumer products and services.

Its attributes include the following:

1) A promoter persuades and recruits people to purchase products, services, credit title or rank where the recruits can receive income primarily from mere introduction, recruitment or sponsorship of other participants into the scheme rather than from the marketing and sale of products.

2) The profits of the person employing are derived from recruiting other persons into the plan or scheme rather than from the sale of consumer products, services & credit.

3) The said plan/scheme includes but is not limited to one or more of the following attributes:

a) Revenues or income are derived from participants’ entry fees.

b) In order to earn income, participants must sponsor a fixed number of other participants, each of whom must in turn sponsor a fix number of participants as in a plan compensating participants balancing a number of recruits than number of sales volumes.

c) A participant’s income is dependant primarily upon the participant’s slot or position within the organization as determined by the time, date and order of participation.

d) Participants are not allowed to return marketable and unused products for refund with a reasonable period of time or the conditions for such product return are contrary to the provisions of the consumer act and/or it’s implementing rules and regulations.
e) There is no fair market value for the goods received. [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].

In Philippines, some ‘innovative’ groups thought of going around the law by offering products and/or services in their schemes. Department of Trade and Industry of Philippines, becomes aware of an MLM firm only when a complaint has been filed against it, because the department is required to invite the supposed erring firm for Marketing presentation and questioning. A thin line separates networking from the pyramid scheme. Thus began the problem of distinguishing a legitimate MLM from those into pyramiding. Thus, by offering products & services, a networking company becomes legal & is shielded from pyramiding charges. However, in such case, both the distributors & the company can be held liable for violating Article 50 of the consumer Act of the Philippines which states, “An act or practice shall be deemed deceptive whenever the producer, manufacturer, supplier or seller, through concealment, false representation or fraudulent manipulation, induces a consumer to enter into a sales or lease transaction of any consumer product or services.”

**Bill to make pyramiding a non-bailable offence:**

When the Researcher was studying the legal provisions relating to MLM in Philippines, a Bill was to be introduced to make pyramiding a non-bailable offence because pyramiding operators can easily change company names and restart an illegal business if allowed provisional liberty. More important aspects of the bill are that it included the definitions of a legitimate multilevel marketing [MLM] plan that are not present in both the consumer Act and the DTI administrative order. Some other aspects of the bill are as follows:

a) A low *entry barrier* such as minimal processing fee or reasonable sales kit demonstration materials, sold at cost as prospects sign up as distributor.
b) A low exit barrier by way of a “buy-back” policy [at a reasonable rate of the price paid] whereby the firm will re buy within 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.

c) An indispensable need for regular retail requirements for the distributor to earn continuously. There is no offer in income by simply recruiting and products are sold at fair market value.

d) An obligation for distributors to sell at least 70 percent of their previously acquired inventory before they are allowed to make a repurchase. There is absolutely no inducement for inventory loading.

Summing up of the regulatory framework for MLM in foreign countries:

1) There is a separate Act / specific provisions in other Acts for MLM.
2) There are entry barriers to MLM companies.
3) There is a monitoring authority for MLM which issues guidelines for distinguishing between the two.

Thus, many countries are making specific efforts to protect the people from pyramid schemes by distinguishing between the two.

2.15 MLM in India:

In the pre-liberalization era, network marketing in India was usually in the form of various chit fund companies like Sahara India. These had a system of agents, who simultaneously mobilized deposits and appointed sub-agents for further deposit mobilization.

Oriflame International was the first international major to begin network marketing operations in India in 1995. This was followed by the entry of Avon India in late 1996. Tupperware, with product portfolio comprising plastic food storage and serving containers, also entered India in 1996. It was at this stage IDSA (1996) was founded by Amway, Avon,
Oriflame, Lotus learning Private ltd, LB publishers. The first homegrown MLM major was Modicare, started by the house of Modis in 1996. Modicare’s network was spread across northern and western India. Amway started its operation in India in 1996.

IDSA [The Indian Direct Selling Association]:
The Indian Direct Selling Association [1996] is an association of companies engaged in the business of direct selling in India. Its members are of high National and International repute having set standards in delivering quality goods and in following ethical business practices.

**Its main objectives are:**
1) To promote and protect the interests of the direct selling industry and of consumers.
2) To support and protect the character and status of the direct selling industry and to assist and guide in the maintaining of qualitative standards in direct selling.

**Members of IDSA:** (* Founder members www.idsa.com)
1. Amway India Enterprises
2. Avon Beauty Products Pvt Ltd
3. LB Publishers & Distributors Pvt Ltd
4. Lotus Learning Pvt Ltd
5. Oriflame India Pvt Ltd
6. D K Family Learning
7. Tupperware India Pvt Ltd

**Functions of IDSA:**

i. Through the Code of Ethics, the IDSA induces an environment of growth and prosperity for all the people associated with Direct Selling. The enforcement of the code is ensured through an industry ombudsman.

ii. It publishes industry trends reports, prepare latest data, updates and has access to the surveys undertaken by the WFDSA, USA.

iii. It gives a chance to the suppliers to direct selling industry to become associate members and have business clients anywhere in the world. However, this membership is also limited to first class suppliers only.
IDSA is one of the fastest growing DSA’s of the world with industry growth rates estimates at 50-100% per year for the current and future years.

The direct selling industry in India was in its initial stages even in early 2001. Besides Amway, Oriflame, Avon and Tupperware, other players included Lotus learning, LB Publishers and DK learning, all selling books. With this growth, many new MLM companies entered the market as well as many fraudulent tendencies crept in. On one hand, the number of MLM companies and distributors is increasing and on the other hand, many cases of cheating are also reported. Information about the companies operating in India and various legal aspects of MLM in India are explained in the subsequent chapter.

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