

Multilevel Marketing for everybody is not forever

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Abstract: *Multilevel marketing is a form of income where people recruited in a program continually purchase products and services, and are encouraged to recruit other people to do the same. But is this a long-term business? This paper aims to actually clarify this matter once and for all and to show that an MLM system can actually be a profitable business if done correctly. One of the main problems that occur in the multilevel marketing system is that it is very easy to enter this distribution system. In order to function properly, an MLM system should not be obsessed with large and quick winnings, but should focus on small and long-lasting gains.*

Key-words: *multilevel marketing, pyramid schemes, entrance fee, direct sales, business*

1. Introduction

In Romania, at the end of 1990, after the fall of the communist dictatorship, network marketing systems arose as a result of the entry into the local market of individual Austrian life insurance agents, contributors to the Safe Invest holding as insurance brokers on the system MLM.

However, precarious economic conditions, lack of adequate legislation, and people's reluctance to self-responsibility, made it considerably easier for companies of this kind to start officially. For four to five years, partners from Italy, the Netherlands, Austria, Hungary, Germany and the USA entered the market, quite shyly, trying to build networks for different companies (Herbalife, Amway etc.) distributing cosmetics, cleaning, nutrition, or health care items. Most of these activists were on the edge of the law, as none of the supplying companies was registered in Romania.

In 1994, the first MLM companies in Romania (Safe Invest Romania, Saveco Romania) were officially registered and a few years later, the major Network Marketing companies (Oriflame, California Fitness, Amway, Golden NeoLife Diamite, Carion, Forever Living Products, AVON, Eurolife etc.) joined them. At the same time, some native MLM companies appeared to try to imitate the success of

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the established ones, but with no notable results due to lack of capital and experience in the field.

If by 1998 the number of collaborators was estimated at about 60,000 and at the end of 1999 there were approx. 125,000 people directly involved in the system, now they are more than 300,000 (MLM distributors). Currently, more than 10 Network Marketing companies are trying to develop their market in a dynamic economy, permanently offering what no other Romanian industry can offer: jobs.

2. Multilevel Marketing, Network Marketing and Pyramid Schemes

Dr. Jon Taylor, founder of the Consumer Awareness Institute, who has extensive knowledge in multilevel marketing, has given his own definition of the term: "Multilevel marketing is a form of income where people recruited in a program continually purchase products and services and they are encouraged to recruit other people to do the same. The program is dependent on the recruitment of an unlimited number of people and the personal consumption of products in order to receive bonuses and commissions and to advance on the hierarchical scale into a pyramid of participants. The products purchased become means of disguising or flushing investments that are in fact illegal schemes" (Taylor, 2012).

Also, Dr. Taylor has gathered different definitions from several authors. According to this, author Richard Poe offers the following definition in his book "Wave 3: The New Era in Network Marketing": "Network marketing is not defined by any standard business dictionary. Even marketing people can not decide on what it really means. Thus, I suggest the following: Any marketing method that accepts independent sales representatives to recruit other sales representatives and to receive bonuses from sales made by them" (Taylor, 2012).

The author Zig Ziglar, along with Dr. John Hayes, in the book "Network Marketing for Dummies" gives a technical definition: "Network marketing is a system for distributing goods and services through a network of independent distributors. Distributors earn money from selling products and recruiting others. Also, distributors earn money monthly and from sales made by those they have recruited" (Taylor, 2012).

Regarding the pyramid schemes, the Direct Sales Association of Romania defines them as "illegal winning procedures, virtually built in the form of a pyramid or pyramidal structure, in which the layers of the pyramid are made up of people who pay a certain amount on the schema entry ". The general rule of earnings is as follows: People who lead the pyramid can't earn money unless a lot of people enter the scheme at the base of the pyramid. Each person has to pay an entrance fee, and then he has to recruit other people who will also pay the entrance fee. Their earnings consist of the sum of the entrance fees of the people at the base of the pyramid. So the people at the base of the pyramid give money for some people on the top. Each

new participant pays for the chance to reach the top and takes advantage of the payouts of those who will come into play later (www.rodsa.ro).

Both MLM and pyramids have multilevel payment systems, but that is where the similarities end. Network marketing is a legal, ethical manner of doing business. Pyramids are illegal, fraudulent con games. In MLM, the participants are legitimate sellers of a product or service and business opportunity, while in a pyramid, they are crooks. The most important difference between illegal pyramids and legal distribution is that in the case of the latter, the value returns to the customers from the top of the pyramid, as it can be seen in Fig. 1.

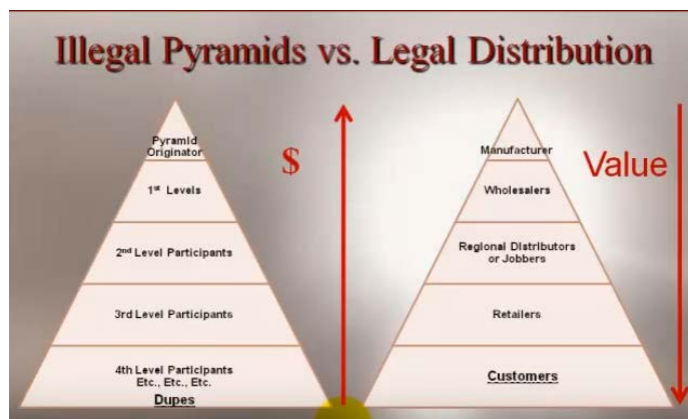


Fig. 1. *Illegal Pyramids vs. Legal Distribution*

Also, according to the Direct Sales Association, people who promote these schemes are “masters in mass psychology”. They are called in that manner because at each recruitment meeting they are spreading "a real state of frenzy, an atmosphere of excitement where group pressure and promises of overnight incomes manipulate the greed or fear of people losing a good deal". Normally, at any meeting there is a question and answer session, but here the questions are discouraged, making it harder for those in the room to realize that it is not the perfect business as it may seem.

To appear as a network marketing company, a pyramid scheme turns to a product line and claims to sell it. However, the real effort put on selling products is infinite or completely non-existent. Instead, money is collected in the typical style of pyramid schemes: through recruitment. The main feature of these pyramids is that new distributors have to buy large quantities of expensive products when they join the scheme (Kotler, 2010).

3. Multilevel Marketing for everybody is not forever

Dr. Jon Taylor, who once was part of an MLM system, has reviewed over 500 companies and firmly maintains that there are no multilevel marketing companies all based on the endless recruitment of new members. He wants, in one of his works, to demonstrate that even legitimate companies can show signs that they are just pyramid schemes (Taylor, 2000).

Moreover, hidden masked MLM programs are more dangerous than clear pyramid systems. These are simply discovered and closed, while so-called legitimate MLM companies are looking for as many victims as possible. Taylor borrows the concept of "syndrome" to clarify the problems present in MLM systems. The syndrome method of classifying diseases allows the doctor to identify certain diseases by the presence of symptoms. For example, if at least five out of ten disease-specific symptoms are present, the doctor may give the verdict of the disease (Taylor, 2000).

The person who actually does the sale of a product has a total gain lower than a level three or more superior distributor, which had much less to do with the sale. So, there is a need to recruit as many distributors as possible, in order to get more profits rather than simply selling (Taylor, 2000).

An MLM system can not satisfy all its members as the theory says because it can not resist in time economically.

First, the population is limited. The more the founding members want to grow the business as quick as possible, in order to get the most profit, the closer they are to bankruptcy. A simple calculation shows that if we have a theoretical pyramidal system with six arms, on each level, it is not possible to reach the 13th level because the current population (about 7 billion) will be overcome.

In the moment of the MLM system's apparition humans didn't have the possibility to collect information as they do now, thanks to the Internet's accessibility and for that reason the first companies that have adopted this MLM system are still alive today.

At that time, it was much more convenient for the average consumer to buy the goods and services offered to him by a vendor who was knocking at the door, so he was not losing his time looking for all sorts of products on the store shelves. But nowadays, we have a multitude of products and services from which to choose from the comfort of our home and all that at just one click away. That's why it is very difficult for door-to-door vendors to be so easily accepted in the home by consumers. It is very difficult for direct sellers to justify their high prices because similar products are sold in major hypermarket chains and can also be purchased online at much lower prices (Hwee Nga and Wai Mun, 2011).

3.1. The people's fears that MLM system exploit

The fear to choose wrong: When you participate in a product presentation offered by the direct seller, they manage to create an image in the mind of the customer that in fact their products are the best; therefore, those products cannot be found on the store shelves because they are high quality and can only be purchased through this system.

The fear of not being part of a group: through their portfolio of products, MLM companies are trying to embed a lifestyle aspired by everyone in a micro system.

The fear of the interview: In order to get into this business, it is enough to buy an initial package of products. There is no need for the new member to take part in an interview or submit a CV. Simply by purchasing that product pack he/she got into the "game".

The fear of failure: A company with a long history on the market says a lot about its way of organizing the business and then it is credible for those who want to supplement their income in a "safe" way.

At the same time, the MLM system also exploits people's desire for affirmation and recognition which, in most cases, is more important to individuals than the desire for safety and long-term comfort. That is why many new members fill their garage with countless unsold products, just to be called on stage and applauded by the whole room, because from the bronze status they reached the platinum in just 6 months.

In order to function properly, an MLM system should not be obsessed with large and quick winnings, but focus on small and long-lasting gains.

Products need to be sold in small quantities to generate stable monthly orders, and the criteria for becoming a member of this system may be far more severe in order not to collapse so quickly.

Another problem that occurs in the multilevel marketing system is that it is very easy to enter this distribution system, distributors should be first and foremost good sellers, it is very important that they know how to approach customers, identify their needs to be able to offer products that meet them, negotiate in the sales process, and last but not least to loyalize and respect them.

Regarding the company's products, a good seller knows: features / qualities, presentation, demonstration / comparison, benefit presentation, competitive comparison, prices and availability.

It is also very important for distributors to know how to use sales documents, know how to book products, and how to pay, and help pre-and post-sale customers. That is why entering an MLM system, whilst fairly easy, is not "for everyone".

4. Conclusions

Multilevel marketing is a form of income where people recruited in a program continually purchase products and services and are encouraged to recruit other people to do the same.

Marketing and distribution activities are highly dependent on local culture. If a business works in America, it does not mean it will work without any adjustments in any other country.

The fact is that most of the participants of an MLM system cannot realistically make a net profit, but instead they operate at net losses. This happens despite the fact that some companies generate multimillion-dollar profits for the MLM owners and shareholders.

The public is not well informed about Network Marketing and, for this reason, some people associate it with illegal pyramid sales. As industry grows and the results become significant, the media interest will increase significantly, leading to the disappearance of ambiguities and confusion over the legality of systems.

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