

MULTI-LEVEL MARKETING - WHAT IS IT?

Trading Standards Department
Nottinghamshire County Council
Trent Bridge House
Fox Road, West Bridgford
Nottingham, NG2 6BJ

Often the subject of enquiries and complaints by members of the public to trading standards departments, Multi-Level Marketing (MLM) has for too long been shrouded in mystery and misunderstanding. In this article I attempt to give you the facts about this successful, legal and increasingly popular method of doing business, for your interest and for the benefit of persons seeking advice from our service.

What is it?

Also known as Network Marketing, MLM is a rapidly expanding method of selling goods and services which is now firmly established in most countries of the free world. It is big business, probably offering the opportunity for wealth to more people than any other form of business. Worldwide sales through MLM are over £7,000,000 annually. 20% of the 500,000 plus millionaires in the USA made their fortune in the last ten years through MLM, and the concept is being taught at Harvard Business School in the USA. The basic principle of MLM which makes it different to conventional businesses is that, instead of a manufacturer constructing a large administrative and sales organisation comprised of employees, self employed distributors are encouraged to build a sales organisation of persons like themselves by their own efforts. Financial rewards are paid based upon total sales of all distributors within the organisation developed by any particular distributor. In such a way distributors are paid in proportion to their efforts in selling and sponsoring others (recruiting).

The types of goods and services available through MLM cover virtually every area of consumer spending: household necessities; slimming products; perfumes; cosmetics; books; food; property development; fitness equipment; financial services etc.

The attractions of MLM include: 1) the availability of a very high income from part-time work; 2) the lack of any significant financial or other risks; 3) for the companies; a highly motivated sales force. Stockholding is unnecessary and products are obtained in response to retail orders.

We are not talking about "get-rich-quick" schemes here, although exceptional people may be able to do so. The vast amount of company profits which would normally be spent on employees, marketing and advertising in conventional businesses, are available instead to pass on to distributors in commission and bonuses. The high income's possible are due to "residual" income, i.e. income based upon previous efforts. Insurance agents, writers, actors musicians earn residual income, provided the policies continue, the books & records still sell and so on. So in MLM, as long as the products sell regularly and your organisation grows, then your residual income increases due to your past efforts in sponsoring. "Linear" income, i.e. a

month's work, is always limited to certain levels whereas residual income is in theory unlimited. However, it must be remembered that MLM is like any other business in as much as high rewards are solely the product of hard work.

Safeguards are built in to the more reputable schemes to ensure that there are no short cuts to success and that the cornerstone of the business consists of retail sales to the public. Some schemes require regular purchases by distributors for their own use, thereby increasing the business volume and therefore profit of each distributor's group. The most stable and successful companies' schemes are firmly based on repeat purchasing of quality products by satisfied customers.

Complaints & Enquiries

Most justifiable complaints relating to MLM are caused by the over-enthusiastic and occasionally deceptive activities of distributors who are excited at the potential of their business. Problems are usually related to: a) exaggerated claims about the products, b) misleading invitations to meetings where the business opportunity is to be presented, c) reluctance to honour money back guarantees given by the companies, d) misleading information given at business presentations and e) misleading advertising for product sales or recruits.

Invariably, contact with the relevant promoting company will result in swift action against the problem distributor, who would certainly be flouting the company's rules of conduct in most cases. Of course there is always the possibility that the distributor and/or the company have committed offences.

Common questions about MLM are:

Isn't it pyramid selling? - The Oxford English Dictionary defines the term as "...a form of financial trickery...." Although the term is often used to describe MLM, it is more appropriate to reserve its use for the highly undesirable and now illegal schemes which surfaced in the early 1970's where participants were required to pay large sums to enter schemes and were encouraged to purchase large consignments of goods - the larger the quantity the bigger the discount - before ensuring that they had the customers and the additional participants to supply them to. Naturally, many people were left considerably out of pocket with vast stocks of unsold product.

"Won't it saturate?" The Department of Trade and Industry in an advisory leaflet describes how, within six months there could be 67,000,000 distributors in any one scheme. This is fine in theory, but a dubious statement when some facts are considered: a) the largest MLM company in the world has steadily been expanding for 30 years and its UK distributors number less than 1 in a 1,000 of the population; b) the UK birth rate is many times higher than the rate of increase in numbers of distributors in any major MLM scheme; c) saturation of any particular area is unlikely due to the facility of being able to sponsor persons living anywhere in the UK (or internationally in some cases) without undue difficulty and d) it has never yet happened.

"Is it better to get in at the start?" Again the DTI says yes but I am not sure that this is correct. Following on from the arguments above, there will always be a certain proportion of the population which want to participate in any particular scheme and because of the dynamics of populations I suggest that it is no more difficult to find prospective distributors or customers at a later stage of a scheme than it is at the start. It is also true that some of the most successful distributors started their businesses very recently in terms of the age of the companies concerned. It is possible that a prospective distributor may be better off dealing with an established, stable and financially sound company than a brand new one.

Legislation

Apart from legislation covering many aspects of specific products, Part XI of the Fair Trading Act 1973 and regulations thereunder govern certain aspects of the operations of MLM schemes.

Most of the larger companies schemes come within the scope of section 118 of the 1973 Act and are therefore obliged to operate within the rules set down in the Pyramid Selling Schemes Regulations 1973 and in Section 120 of the Act. These requirements are directed principally to providing full details of the schemes and the rights of participants to any prospective distributor and to the avoidance of the undesirable aspects of "pyramid selling", e.g. payments or rewards based upon matters other than completed retail sales.

A review of the current legislation by the DTI has been proceeding for a number of years. This may result, among other matters, in restrictions upon schemes where sales to distributors are given more prominence than sales to the public.

Finally, what advice can be given to a prospective distributor who wants to know whether to join an MLM scheme? I suggest the following:

Look at some of the numerous other MLM companies besides the one that you are are being asked to join. Compare the quality, range and price of the products and the different marketing plans of each company. Then ask yourself these questions:

- (1) Would you buy the products yourself?
- (2) Are you satisfied with the integrity and stability of the company and the marketing plan?
- (3) Are you willing to put in a significant amount of consistent effort?

If all three answers are yes, there is a lot of money waiting for you, so get started. If you are less sure about the answer to No. 3 consider making a small income by selling only or even joining up solely to obtain product for your own use at less than retail price.

Further information and company details can be obtained from the Direct Selling Association, of which most reputable company's are members..

Their address is:
44, Russell Square, London, WC1B 4JP.