

## Multi Level Marketing – Problems & Solutions

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**Bindu Aggarwal & Deepak Kumar,**  
Assistant Professor(s), S.D. College Ambala Cantt, India

### **ABSTRACT**

*Multilevel marketing is gaining importance in the Indian markets and business houses in the Indian markets are taking to the new marketing model in a big way. MLM field grows and its member companies multiply. There are a plethora of opportunities for marketing executives in India who have skills in MLM. But unfortunately, in India a few companies have introduced MLM at a very large scale, by quoting and promising very high returns. A large number of the people belonging to the middle class population of India have joined into this dying business of MLM by paying an entry fees into the business. Some of the MLM efforts have in fact been miserable failures inspite, of the fact that they offer excellent products. This article will analyze the major problems involved in the business of multi level marketing and will offer measures to overcome them.*

**KEYWORDS :** MLM, Distributors,MLMer's.

## INTRODUCTION

Multi level marketing or MLM is a system for selling goods or services through a network of distributors. MLM, beyond any doubt, offers a host of attractive benefits to all levels of people willing to participate in the business. Low cost of entry, high level of residual income, financial freedom, quality time with family and working from home are some of the attractive rewards that successful MLMer's (MULTI LEVEL MARKETERS) are enjoying today. But whilst there are successful MLM home-based entrepreneurs, there is a disproportionately high number of MLMer's who are still chasing that elusive dream of wealth creation. The reality of this industry is that people switch companies all the time. 90% of distributors are dissatisfied, frustrated and barely lasts 3 months with their existing MLM opportunity before they quit. Then they move on to the next company in the hope that this time things will improve.

The MLM business is perhaps one of the most controversial industries in modern commerce. It is therefore, not surprising that MLM as a business practice was much frowned upon and viewed suspiciously when it

was first introduced to the public. MLM was born in the early 1940s with companies such as Nutralite food supplement corporation, Shaklee, Amway company, Mary kay and Herbalife. MLM allows a person to earn income from what he/she sells and also offers a commission on the sales of other persons he/she has recruited in his/her downline.

## OBJECTIVES

- To understand the working of multi level marketing business.
- To analyze the problems involved in the Multi Level Marketing business.
- To give corrective measures to solve the problems of multi level marketers.

## REVIEW OF LITERATURE

**FITZPATRICK (2004)** did an analysis of the MLM process and unearthed some lies surrounding multi level marketing. He reached at the conclusion that MLM business is primarily a scheme to continuously enroll distributors and little product is ever retailed to consumers. He described the 10 biggest lies found to

be present in almost every MLM business.

**VYAS ((2005))** studied the complexities of MLM. He compared network marketing with other conventional business organizations and concluded that network marketing is a fairest system because it compensates people based on their contributions and efforts.

**GOPAL (2005)** discussed the various alternative distribution channels and suggested the integration of these channels to overcome the limitations of traditional formats.

**CECILIA AND ERNEST (2007)** identified the reasons why Malaysians join and continue to remain in the industry. They found some of the significant factors that contribute to the attraction of the MLM industry.

**SOOD, PRIYADARSHINI AND ANITA SHARMA (2004)** found the factors that Tupperware consumers associate with the Tupperware products. He collected data from 272 Tupperware users from the Chandigarh region.

**DUTTA, SANJIB AND KINGI (2005)** examined the growth of the direct selling company, Tupperware

in the Indian market. They found that Tupperware followed a marketing strategy comprised of three P's Product, Party plan and People. It was found that Tupperware customized its products according to the Indian needs and fixed its prices 25% below the regular Tupperware portfolio.

**SHENOY (2002)** found that Amway India had registered a 100 percent growth annually for the last three years. She took a review of the of the future plans of Amway to include home tech category including water filter, food storage and cookware.

**PUNAM (1999)** studied about Amway India Enterprises and found that the business of the company is increasing day by day. The company has over 2.5 lakh distributors- half of them sell products of the companies like Tupperware and Oriflame in India. She concluded that each Amway distributor is also a prospective user of Amway products.

## **OBJECTIVES OF THE PAPER**

1. To study how multi level marketing works.
2. To study the issues involved in multi level marketing business.

3. To suggest measures to overcome those problems.

### **HOW MULTI LEVEL MARKETING WORKS**

Multi level marketing works by geometric expansion. It utilizes a multi-tiered, non-employee sales person-cum-distributor to sell the products. The process begins with the recruitment of a core group of sales persons-cum-distributors, who have to be introduced to the company by a sponsor. This is usually shown as an expanding matrix with corresponding kick backs at various levels.

A distributor in multi level marketing company earns money both through the sales of the multi level marketing products and through other distributors, by receiving a portion of the income these distributors generate. The distributors that you sign up with your multi level marketing plan are called your downline. The distributor that originally recruited you is called your upline. Every member in the network has his own role and equitable recognition.

Distributors pick up products worth a certain sum, say Rs 1000 at a time and sell them directly to the consumers. After they have sold their first consignment they are allowed to pick up their next lot and no distributor is expected to make all sales on their own.

### **PROBLEMS FACED BY MULTI LEVEL MARKETERS**

Multi level marketing is not a very viable concept, even theoretically, nor is it a very profitable means of distribution for all parties involved in multi level marketing. The growth of multi level marketing business is the result of deceptive marketing that plays upon treasured cultural beliefs, social and personal needs, and some economic trends, rather than its ability to meet any consumer needs. The main problems faced by multi level marketers are:

- **MARKET SATURATION**  
– The success of any business depends upon the demand and supply conditions for its products. Multi level marketing is done on the principle of

adding more and more distributors to sell its offerings, which means increasing the competition for own. All distributors sell the same products which results in increased supply of the products but not much increase in demand. This mismanagement results in market saturation.

- **PYRAMID STRUCTURE** – MLM works on the basis of pyramid structure. It means the income of the distributors at the top will be high and at the bottom will be low. Moreover, pyramid schemes are illegal because it promises a large return in return for a small investment. People who join MLM business get the opportunity to earn more and the people who join this chain of business at later stage earns little because of the increased competition. So it can be said that pyramid schemes are fraudulent and exploitative in nature.

- **MORALITY AND ETHICS** – Multi level marketing companies earns through its distributors not through the sale of its products. These companies sell the dream of earning big by hiding the ground realities of this business. So it is morally wrong and unethical.
- **RELATIONSHIP ISSUES** – MLM distributors offers its products to their friends and family. They exploit them by offering products and convince them to buy the products which even they don't need. In multi level marketing lifelong friends and the neighbourhood turns into a market. It adversely affect relationships.
- **LACK OF PROPER TRAINING** – One of the biggest problem of MLM business is that no formal training is given to the people who join it, rather they are directly given products to sell without having the knowledge of the

art of selling. Without proper training one has no right expecting to make money.

- **LACK OF PROPER LEGAL REGULATIONS**

– Over the past few decades, companies such as Modicare, Tupperware, Quantum, Oriflame, Amway and Herbalife have been successful in India . But due to the lack of proper regulator the industry has been tainted by the alleged wrong doing of a few. SpeakAsia online was accused of defrauding people to the tune of Rs 2300- 2400 crore by the Mumbai police in 2010.

**MEASURES TO OVERCOME THE PROBLEMS OF MLM'ers**

- **PROVIDE TRAINING TO MLM DISTRIBUTORS**

– Good compensation plan and proper training should be given to MLM distributors. Professional training about the art of presenting and selling the product and

services should be given to MLM distributors. Complete knowledge about the products, services and their benefits is very important to attract customers and retain them.

- **LACK OF KNOWLEDGE ABOUT PYRAMID STRUCTURE**

– Some people think the shape of a MLM company (polygonal base or triangle) makes it an illegal pyramid scheme. This is false. People joining MLM business should be made aware of this pyramid structure and its relevance. The reason almost all organizations are organized in a pyramid shape is that a single person can only manage a finite number of people and for this reason they require another person to lessen their workload.

- **CONSIDERATION TO MORALITY AND ETHICS**

– MLM distributors should give due consideration to morality and ethics. Products should be offered to customers and

not to be entirely consumed by MIM distributors themselves. Revenue should be generated by offering products not through the increased network of distributors only.

- **BUILD RELATIONSHIP BASED ON TRUST** – Relationship based on trust goes on for a long period of time. Majority of the customers of this business comes from family and friends. They should be treated like what they are, not as marks for exploitation. It means they should be offered only those products which they actually require.
- **CHOOSE A REPUTED COMPANY** – People who join MLM business do a common mistake of not devoting any time in looking for the reputation of the company, its products, their quality, price, competitors

etc. Products which belong to a good company and of good quality are very easy to sell and act as a silent salesman for distributors.

## CONCLUSION

In India a few companies have introduced MLM in a very large scale, by quoting and promising very high returns. A large number of the people belonging to the middle class population of India have joined into this business by paying an entry fees into the business. MLM distributors poses many problems as is clear from the above discussion. The success of MLM lies in the ability of a member to convince customers about the laws relating to contract employment, part-time employment etc. Many enterprising youth are following it as a source of second income.

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