

Multi-Level Marketing

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MLM, or Multi-Level Marketing is a form of sales where a company tries to sell a product by recruiting distributors who will also recruit distributors, who will also recruit distributors (etc) and promises that each level recruited can make money through the sales of the level beneath.

MLM products are usually sold as being of very high quality, at least as far as the advertising goes, which is how they justify high costs. The idea is that by "people power" alone, an efficient distribution network can be set up and you can cut out all the middlemen.

Well known MLMs include Amway, Mannatech, Herbalife, Skybiz (or Skybiz 2000.. or a bunch of other variational names since they change to something every other week apparently). All have products that they claim are unique, all charge bucketloads of money for their products, all promise that you can make a significant extra income by becoming a distributor.

MLMs object in the strongest terms to being called sales pyramids. A pyramid scheme is necessarily illegal, it is a scheme where people recruit other people exclusively in order to get more people in, there is no real product, but the people running the thing make a fortune out of all the "administrational fees".

MLMs are legal sales pyramids. They do have a product, and while the product is entirely beside the point as far as most of the people in the scheme are concerned, in court MLMs usually do get away with arguing that they are selling a legitimate product. What they do get in trouble for is the "shadow pyramid" that often develops, a secondary market of motivational tapes and fee-charging "training" meetings, where it is often successfully argued by prosecutors that the product here is worthless, and then the MLM becomes a true pyramid scam.

The key characteristics of an MLM are a promise of great wealth, based on geometric arguments about how many people you end up with under you if you successfully recruit 5 people who each recruit 5 people who each recruit 5 people. It is easy enough to get dazzled by the figures until you start to realise that by the time you are just a couple of generations down you would need the entire population of your city, just in your branch. "Easy", say the promoters, "we're off to launch in Japan in a few months". Along with the wealth promise they say the product is so great everyone will want it, usually claiming the product is so concentrated that even this high price is justified, and an insistence that you get all of your friends involved.

Why doesn't this work? Well for starters an MLM is not free of middlemen at all, the 10 layers of people between you and the company are the middlemen! The result is a product that is far more expensive than the usual method. Businesses are quite efficient these days, the markup on goods at discount supermarkets is fairly low, goods are moved by forklift onto big trucks and sold by the thousands. MLM accounting schemes are hugely complicated by comparison, it would be virtually impossible for anyone to make decent money in them unless they were expensive to start with, but since most MLM participants buy the products for themselves as well, the amount of money made is never as much as the amount of money spent, unless you are the top 1% person with at least 100 people in your downline.

(Think about it, if you are going to have 100 people beneath you, you are bound to be in the top 1% of participants. No one has a logical right to assume that they would wind up in the top 1% of a sales organisation, unless they are an exceptionally talented salesman, in which case real estate and cars are probably going to make you more money. Real estate agents and used car salesmen, as vilified as they may be, are still much higher up in the social order than MLM promoters).

Those guys up the top of an MLM organisation got there by hustling their way up, phoning people and doing huge numbers of presentations. They might even be the ones who hire sports stadiums and talk to thousands of people. You will not achieve the results just by recruiting a few friends, takeup rates are so low that you really do have to see thousands of people to sell a hundred positions. If given a choice of spending the next 20 years building up a property and shares portfolio or hustling people to buy into an MLM I know which approach would be the easier one.

The quality of the products? Well Choice Magazine did a survey a few years ago, comparing Amway brand detergents with cheaper supermarket brands. They found that even the concentration still didn't make up for it, the product was still too dear and not really all that great. Mannatech (who sell little sugar pills, supposedly to help your cells communicate with each other), tell a great story to recruits about clinical trials and wide scientific acceptance, yet in their report to shareholders admit the product is unproven. Herbalife products are just way too expensive, and not necessarily as good as they say. They have been sued and had to pay damages for various deceptive tactics. Skybiz is run by some characters who would have us believe that \$100US a year is a price everyone will pay for a place to stick their webpage, and to prove the point have been selling Skybiz memberships to illiterate rickshaw drivers in Thailand who put a couple of months of savings into buying the Skybiz demo on cards, because they have never used a computer in their life....

The argument about the number of people you could recruit is sheer stupidity, it doesn't take long to calculate the number of generations required to fill your downline up, and if you run the numbers against the Australian population you'll want to write your local MP to increase immigration, because we just don't have enough.

One very big problem with MLMs is that people tend to exaggerate when promoting them. You don't always hear fat lies from the top promoters, but the people who want to recruit you are telling you what they think the people who recruited them said, and so on up the line until the deal gets so wonderful by the time it has been through several sets of ears, brains and mouths that it no longer resembles truth. Unfortunately this game of Chinese whispers tends to be the main source of information that many people receive, and when the whole thing is revealed to be a scam the biggest liars tend to be the victims.

But the business reason why MLMs are always bad is because by the very mechanism employed, the organisation recruits far too many sales staff. Can you imagine if a furniture store recruited everyone who walked into the doors as salesmen? Maybe the store might do well initially, but what of the salesforce? It is hard enough to compete against a few dozen competitors in a tight market, what about thousands? Just about everyone who is likely to go for Amway has already seen the demo, complete with the Robert Kiyosaki Cashflow Quadrant (TM etc) and a bunch of malarkey about Amway making more millionaires than anything else in history. (Rubbish, there are numerous stock floats that have made thousands of investors from the IPO into millionaires in a decade or two, and plenty of real estate investors who do this all the time, by comparison only a fraction of 1% of Amway sales people ever get any significant money out of it!)

MLM is not easy money either, few people ever even break even, since they are told to buy the products themselves in order to be a good testament to their wares. They pay far too much for soap for several years, spend a fortune on motivational material (which is optional, but success is optional they say, so you must have the tapes if you want to succeed). For the amount of effort required to even get moderately successful at MLM you could be phoning companies instead to talk to their investor relations department and becoming a masterful share investor. (There is a fine line between insider trading and private discussions on the company with insiders, but the IR department tends to mail this stuff out to anyone who asks, which could still mean you are the only one who they send it to, few people can be bothered doing proper research!)

In order to be even moderately successful in MLM you need to become an excellent salesman. You could make more money as a real salesman though, so why not just get a sales job instead?

In order to do better than break-even you need to drive around doing a lot of demos. You could deliver pizza and get a better hourly rate.

To save money on groceries, you could buy things on special. Redo the Amway calculations on how much you save by buying at their "wholesale" price, using the prices you pay for things on special. The deal falls down when you use anything other than absolute premium brand full priced goods at a very expensive convenience store.

The worst casualty in MLM is what it does to friends and social groups. After you join an MLM your more sensible friends become highly suspicious every time you invite them over. MLM recruits are counselled never to tell invitees what they are coming for, especially not to mention Amway. So people come over for a barbecue, see some guy standing there in a cheap suit with a portable white-board and the penny drops... "Oh, it's Amway again!".

It was quite extraordinary while I was researching MLMs for the FAQ the sort of things I heard. Although most people have a bad MLM experience, to those still in the story is just pitiful. One family friend, who had sent me glowing testimonial letters when I got married three years ago, has still not turned a dollar in all this time. Before I got her on the phone I talked to her husband, we chatted for a few minutes before I asked about "the business". Pay cheques were coming in of about \$10 a month, against spending considerably higher than that on products, meetings and motivational tapes. When I got her on the line later she told me that she was no longer a serious rep, she had not made the effort to pursue the matter in order to make serious money. And yet she still assured me that this was a great opportunity, people made money in it, lots of money. Even more disturbing was her repeated use of the phrase "it's a very ethical business", I kept hearing about Christian ethics and what nice people they all were, the word ethical or derivatives thereof must have been used 30 or 40 times in a 10 minute conversation. If there is one thing that convinces me that MLM is not an ethical business, is when a nice lady you have known for years mentions ethics a few dozen times in a short conversation for no apparent reason. Creepy. MLMs change people, which is one reason why they are so often called a cult.

A very good business analysis of Amway is done at <http://www.awod.com/gallery/rwav/slarsen/amway.html>, this page approaches it as a business opportunity and looks at Amway the way one should look at any franchise you are considering. Is the Amway business model something you would go for?

More information can be found the What's Wrong With Multi-Level Marketing page and at <http://www.falseprofits.com/>.