

MULTI-LEVEL MARKETING V's PYRAMID SCAMS

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A Definition of Multi-Level Marketing

Multi-level Marketing refers to a marketing technique primarily employed by Direct Sales Companies, in which company's existing Rep's are encouraged to make sales in return for commission payments and also receive payments for recruiting new Rep's to assist in the selling of goods and services of the company. It is also called **network marketing** or **referral marketing**, wherein the company explains its own compensation plan to the individuals so that they can make a well-informed decision regarding joining the Company.

Definition of a Pyramid Scheme

Pyramid Scheme, as the name suggests is scheme having pyramid-shaped structure, beginning with a tip (the main person) on the top, that widens continuously towards the lowest level.

A Pyramid Scheme is a superficial and temporary business model in which top-level members recruit other members, by promising them an assured commission for signing up others to the program. For this purpose, a certain amount is charged from the new recruits called as an upfront cost. It can be in the form of Chain emails or Ponzi schemes amongst others.

The earning is based on the recruitment fees only. Hence, there must be an unlimited supply of new members to make a continuous income. The pyramid scheme is very short-lived, as when numerous people enrol in the programme, the cycle is not possible to last long.

Let's have a peek at the "Good and the Dodgy".

Amongst the different methods of direct selling, Multi-Level Marketing occupies a prime place simply because of the fact that it is growing substantially and continually all over the

world. Every day people are joining the networks to become Representatives, agents or distributors, and thousands have become millionaires thanks to the networks.

If you are looking to start a business of your own or looking to earning a second income, MLM offers you a good opportunity. The fact that anyone from any walk of life, any age, with or without qualifications can join an MLM network, makes it the easiest business to get into. Besides, most businesses do not require any big investment from your end and are risk-free.

Many people confuse MLM selling with pyramid selling. It is quite true and likely that the general opinion of many people approached regarding network marketing can be poor and 'Reps' are confronted with varying levels of words on the subject. Therefore you need to have a clear understanding of the difference between MLM and Pyramid selling, including the legality and ethical aspects of both systems, so that you are in a better position to understand the differences and make a well-informed decision for yourself, and not by the voices of ill-informed people.

We as humans have a suspicious and lack of trust mentality towards many professions. Be they; Bankers, Builders, Salespeople, MLM and pretty much most professions that include the passing of money and services amongst each other. (Me included). Anyway, back to the topic.

One of the most significant differences between multilevel marketing and pyramid schemes is that **goods and services are actually exchanged** in the case of MLM, whereas no goods and services are exchanged in the latter.

Another is the different levels of earning. Take an average business, the CEO is at the top. Then you have directors, middle management, lower management and finally the shop floor. A person on the shop floor will not earn more than the middle management and middle management will not earn more than the CEO. In a pyramid scam, the people at the top earn whereas the people low down the chain are not seeing what was promised. Which was Zilch anyway.

In Multi-Level Marketing, Rep's in lower tiers of a network can actually earn considerably more than Rep's higher up the network. So, technically it works better than your run of the mill business model.

COMPARISON MULTI LEVEL MARKETING (MLM) V PYRAMID SCHEME

Meaning - Multilevel Marketing is a strategy, wherein there is a distribution network for selling products and services, either by word of mouth or direct sales.

Meaning - Pyramid Scheme is a bogus business model that recruits people with a promise of sharing a certain percentage of upfront cost for every additional member enrolled by them.

Legality - MLM Activity **Legal**

Legality - Pyramid Activity **Illegal**

Approach - MLM. Objective

Approach - Pyramid. Aggressive

Focus - MLM. Sales of products and services to the customer. Recruit new individuals to sell products and services

Focus - Pyramid. Recruiting new individuals on the promise of "Get-rich-quick". No products or services.

Costs - MLM. Some MLM companies charge upfront for enrollment. I would personally go for a company that defers payment to allow you to try before payment. Avon is one such company. You choose a starter kit suitable for your finances and do not pay for it for thirteen days. By which time you are most probably paying for the kit out of your earnings made.

Cost - Pyramid. High upfront cost and also charges for sales training and materials provided. Which could be anything, a sheet of A4 or a 5 min phone call, Amounting to as much use as a Chocolate Teapot.

Earnings - MLM. Depends on sales and networking activity. MLM company pays you on sales or both.

Earnings - Pyramid. Depends on the number of new recruits. The recruits pay the recruiter, and so on.

Multi-level marketing starts with recruitment, wherein individuals are invited to join as a Representative through the company website or through another person, who is already working as a recruiting Rep in the company, through a jobs fair, or an event organised by the company or recruiter.

In this way, several members join MLM, to earn commissions either by selling products and services of the company or by recruiting other Representatives for the company. The Recruiters get a commission for sales made by them, as well as, they get a certain percentage of combined sales of the other Reps, recruited by them.

Hopefully, this has cleared up the confusion between MLM businesses and Pyramid scams for those of you looking to join an MLM business.

I have been associated with Avon for the last 11 years. Selling Avon and recruiting Representatives.

Adrian Jones