
On Creating a Life Line for the Marginalized Populace through Multi-Level Marketing

[An Academic Opinion]

HASHIMALI SAYED* & RICHA SHARMA**

**Doctoral Scholar in Management Sciences, University of Pune, Camp Pune*

***Doctoral Scholar in Management Sciences, J E C R C University, Jaipur, Rajasthan*

ABSTRACT:

In this paper whose argument has been extended from secondary sources, two Doctoral Scholars combine to put forth their view that India is a growing economy with a growing population. It is marked by unequal distribution of wealth, income and opportunities on one hand and uneven development of peoples, regions and sectors on the other. Whereas information and data on inflation is quite readily available, information on unemployment is difficult to find. The fact however remains that for want of a social security system and with the withering away of the joint family system the number of people in the working-class as well as the middle class are entering the ranks of the unemployed masses. Those who do find employment are often under-employed and financially find it difficult to maintain a decent quality of life. Under these circumstances “working from home” becomes a good option at least in urban India both for the unemployed and the under-employed, irrespective of age and gender. The authors go on to argue that Multi-level Marketing provides a steady source of income (if undertaken seriously) and helps the people involved to keep out of the growing army of unemployed (as Marxists would put it). In the process they posit a theoretical expose of MLM.

As India is progressing it is unfortunate that its development is not keeping pace with its growth. This point was made by the recent paper of Sadri Tara and Patil (2011). They go on to argue that the disparity between the haves and the have nots is expanding alarmingly and structural unemployment has been the bane of planners. The Reserve Bank of India and its think tank is busy balancing inflation and unemployment in the face of the falling Rupee. The peripheral capitalist government is

unable to reconcile the fact that unemployment is a greater evil than inflation *a la* J M Keynes, Michal Kalecki, Piero Sraffa, Maurice Dobb, Ernest Mandel, Alec Nove, Oskar Lange, Sorab Sadri, Laschek Kolakovsky, Samir Amin and Andre Gunder Frank. The inevitable result is that Indian planners are perennially barking up the wrong tree and being unduly preoccupied with containing inflation. No data on unemployment has been released by the Government since 1991 except for the Isher Judge Ahluvalia Report. The basic macroeconomic point that a certain degree is required to propel economic growth, (5% p.a.), seems have been missed somehow. The multiplier-accelerator interplay *a la* John Hicks and Alvin Hansen seems to have been overlooked. That is sad. To contain unemployment one very good policy measure is to promote multi-level marketing and thereby add some umph to the GDP and ease tensions in the labour market at the same time. This is the basis on which the argument of this paper has been posited.

The **Economy of India** is the eleventh largest in the world by nominal GDP and the fourth largest by purchasing power parity (PPP). The country's per capita GDP (PPP) is \$3,176 ([IMF](#), 127th) in 2009. Following strong economic reforms from the socialist inspired economy of a post-independence Indian nation, the country began to develop a fast-paced economic growth, as free market principles were initiated in 1990 for international competition and foreign investment¹ Economists predict that by 2020, India will be among the leading economies of the world. India's top five trade partners are UAE, China, USA, Saudi Arabia and Germany.

India was under social democratic-based policies from 1947 to 1991. The economy was characterized by extensive regulation, protectionism, public ownership, pervasive corruption and slow growth. Since 1991, continuing economic liberalisation has moved the country toward a market-based economy. A revival of economic reforms and better economic policy in first decade of the 21st century accelerated India's economic growth rate. In recent years, Indian cities have continued to liberalise business regulations. By 2008, India had established itself as the world's second-fastest growing major economy. However, as a result of the financial crisis of 2007–2010, coupled with a poor monsoon, India's gross domestic product (GDP) growth rate significantly slowed to 6.7% in 2008–09, but subsequently recovered to 7.2% in 2009–10, while the fiscal deficit rose from 5.9% to a high 6.5% during the same period².

India's large service industry accounts for 57.2% of the country's GDP while the industrial and agricultural sector contribute 28% and 14.6% respectively. Agriculture is the predominant occupation in India, accounting for about 52% of employment. The service sector makes up a further 34%, and industrial sector around 14%. The labour force totals half a billion workers. Major agricultural products include rice, wheat, oilseed, cotton, jute, tea, sugarcane, potatoes, cattle, water buffalo, sheep, goats, poultry and fish. Major industries include telecommunications, textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, information technology-enabled services and pharmaceuticals. However, statistics from a 2009-10 government survey, which used a smaller sample size than earlier surveys, suggested that the share of agriculture in employment had dropped to 45.5%

Previously a closed economy, India's trade has grown fast. India currently accounts for 1.5% of world trade as of 2007 according to the WTO. According to the World Trade Statistics of the WTO in 2006, India's total merchandise trade (counting exports and imports) was valued at \$294 billion in 2006 and India's services trade inclusive of export and import was \$143 billion. Thus, India's global economic engagement in 2006 covering both merchandise and services trade was of the order of \$437 billion, up by a record 72% from a level of \$253 billion in 2004. India's total trade in goods and services has reached a share of 43% of GDP in 2005–06, up from 16% in 1990–91.

The Indian economy continues to face the problem of an underground economy with credible sources saying that India tops the list for black money in the entire world with almost \$1,456 billion in Swiss banks (USD 1.4 trillion). According to the data provided by the Swiss banks, India has more black money than rest of the world combined.

Marketing is the process of performing market research, selling products and/or services to customers and promoting them via advertising to further enhance sales. It generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong customer relationships and create value for their customers and for themselves.

Marketing is used to identify the customer, to satisfy the customer, and to keep the customer. With the customer as the focus of its activities, it can be concluded that *marketing management* is one of

the major components of business management. Marketing evolved to meet the stasis in developing new markets caused by mature markets and overcapacities in the last 2-3 centuries. The adoption of marketing strategies requires businesses to shift their focus from production to the perceived needs and wants of their customers as the means of staying profitable.

The term *marketing concept* holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions. It proposes that in order to satisfy its organizational objectives, an organization should anticipate the needs and wants of consumers and satisfy these more effectively than competitors.

Marketing is defined by the American Marketing Association (AMA) as *"the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. Marketing is a product or service selling related overall activities.* The term developed from an original meaning which referred literally to going to a market to buy or sell goods or services. Seen from a systems point of view, sales process engineering marketing is *"a set of processes that are interconnected and interdependent with other functions, whose methods can be improved using a variety of relatively new approaches."*

The Chartered Institute of Marketing defines marketing as *"the management process responsible for identifying, anticipating and satisfying customer requirements profitably."* A different concept is the *value-based marketing* which states the role of marketing to contribute to increasing shareholder value. In this context, marketing is defined as *"the management process that seeks to maximize returns to shareholders by developing relationships with valued customers and creating a competitive advantage."*¹

Marketing practice tended to be seen as a creative industry in the past, which included advertising, distribution and selling. However, because the academic study of marketing makes extensive use of social sciences, psychology, sociology, mathematics, economics, anthropology and neuroscience, the profession is now widely recognized as a science, allowing numerous universities to offer Master-of-Science (M.Sc) AND Master-of-Business Management (MBA) programmes. The overall process starts with marketing research and goes through market segmentation, business planning and

execution, ending with pre- and post-sales promotional activities. It is also related to many of the creative arts. The marketing literature is also adept at re-inventing itself and its vocabulary according to the times and the culture

The term "**marketing mix**" was coined in 1953 by Neil Borden in his American Marketing Association presidential address. However, this was actually a reformulation of an earlier idea by his associate, James Culliton, who in 1948 described the role of the marketing manager as a "*mixer of ingredients*", who sometimes follows recipes prepared by others, sometimes prepares his own recipe as he goes along, sometimes adapts a recipe from immediately available ingredients, and at other times invents new ingredients no one else has tried. A prominent marketer, E. Jerome McCarthy, proposed a **Four P** classification in 1960, which has seen wide use. The Four P's concept is explained in most marketing textbooks and classes.

Elements of the marketing mix are often referred to as the "*Four P's*":

- **Product** - It is a tangible object or an intangible service that is mass produced or manufactured on a large scale with a specific volume of units. Intangible products are service based like the tourism industry & the hotel industry or codes-based products like cellphone load and credits. Typical examples of a mass produced tangible object are the motor car and the disposable razor. A less obvious but ubiquitous mass produced service is a computer operating system. Packaging also needs to be taken into consideration. Every product is subject to a life-cycle including a growth phase followed by an eventual period of decline as the product approaches market saturation. To retain its competitiveness in the market, product differentiation is required and is one of the strategies to differentiate a product from its competitors.
- **Price** – The price is the amount a customer pays for the product. The business may increase or decrease the price of product if other stores have the same product.
- **Place** – Place represents the location where a product can be purchased. It is often referred to as the distribution channel. It can include any physical store as well as virtual stores on the Internet.

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- Promotion represents all of the communications that a marketer may use in the marketplace. Promotion has four distinct elements: advertising, public relations, personal selling and sales promotion. A certain amount of crossover occurs when promotion uses the four principal elements together, which is common in film promotion. Advertising covers any communication that is paid for, from cinema commercials, radio and Internet adverts through print media and billboards. Public relations are where the communication is not directly paid for and includes press releases, sponsorship deals, exhibitions, conferences, seminars or trade fairs and events. Word of mouth is any apparently informal communication about the product by ordinary individuals, satisfied customers or people specifically engaged to create word of mouth momentum. Sales staff often plays an important role in word of mouth and Public Relations (see Product above).

Any organization, before introducing its products or services into the market; conducts a market survey. The sequence of all 'P's as above is very much important in every stage of product life cycle Introduction, Growth, Maturity and Decline

More recently, three more Ps have been added to the marketing mix namely **People, Process and Physical Evidence**. This marketing mix is known as **Extended Marketing Mix**.

- People: All people involved with consumption of a service are important. For example workers, management, consumers etc. It also defines the market segmentation, mainly demographic segmentation. It addresses particular class of people for whom the product or service is made available.
- Process: Procedure, mechanism and flow of activities by which services are used. Also the 'Procedure' how the product will reach the end user.
- Physical Evidence: The marketing strategy should include effectively communicating their satisfaction to potential customers

A formal approach to this customer-focused marketing mix is known as Four Cs (Commodity, Cost, Channel, Communication) in “7Cs compass model.” Koichi Shimizu proposed a four Cs classification in 1973.

This system is basically the four Ps renamed and reworded to provide a customer focus. The four Cs Model provides a demand/customer centric version alternative to the well-known four Ps supply side model (product, price, place, promotion) of marketing management. The Four Cs model is more consumer-oriented and attempts to better fit the movement from mass marketing to symbiotic marketing.

1. **Commodity:**(Original meaning of Latin: Commodus=convenient)the product for the consumers or citizens. a commodity can also be described as an raw material such as; oil,metal ores and wheat, the price of these tend to change on a daily basis, due to the demand and supply of these commodities.
2. **Cost:** (Original meaning of Latin: Constare= It makes sacrifices)producing cost, selling cost, purchasing cost and social cost.
3. **Channel:**(Original meaning is a Canal)Flow of commodity : marketing channels.
4. **Communication:**(Original meaning of Latin: Communio=sharing of meaning) marketing communication : It doesn't promote the sales.

(Framework of 7 Cs compass model)

- (C1): Corporation and competitor: The core of 4Cs is corporation and organization, while the core of 4Ps is customers who are the targets for attacks or defenses.
- (C2) : Commodity, (C3) : Cost, (C4) : Channel, (C5) : Communication
- (C6) : Consumer (Needle of compass to Consumer)

The factors related to customers can be explained by the first character of four directions marked on the compass model: N = Needs, W = Wants, S = Security and E = Education (consumer education).

- (C7) : Circumstances (Needle of compass to Circumstances)

In addition to the customer, there are various uncontrollable external environmental factors encircling the companies. Here it can also be explained by the first character of the four directions marked on the compass model --- N = National and International C, W=Weather, S = Social and Cultural C, E = Economic (Circumstances).

Four Cs (2)

Robert F. Lauterborn proposed a four Cs(2) classification in 1993. The Four Cs model is more consumer-oriented and attempts to better fit the movement from mass marketing to niche marketing. The Product part of the Four Ps model is replaced by **Consumer** or Consumer Models, shifting the focus to satisfying the consumer needs. Another C replacement for Product is Capable. By defining offerings as individual capabilities that when combined and focused to a specific industry, creates a custom solution rather than pigeon-holing a customer into a product. Pricing is replaced by **Cost** reflecting the total cost of ownership. Many factors affect Cost, including but not limited to the customer's cost to change or implement the new product or service and the customer's cost for not selecting a competitor's product or service. Placement is replaced by **Convenience**. With the rise of internet and hybrid models of purchasing, Place is becoming less relevant. Convenience takes into account the ease of buying the product, finding the product, finding information about the product, and several other factors. Finally, the Promotions feature is replaced by **Communication** which represents a broader focus than simply Promotions. Communications can include advertising, public relations, personal selling, viral advertising, and any form of communication between the firm and the consumer. the four Ps are (product, promotion, price, place)

Multi-level marketing (MLM) is a marketing strategy in which the sales force is compensated not only for sales they personally generate, but also for the sales of others they recruit, creating a downline of distributors and a hierarchy of multiple levels of compensation. Other terms for MLM include **network marketing**, **direct selling**, and **referral marketing**.

Although the products and company are supposed to be marketed directly to consumers and potential business partners by means of relationship referrals and word of mouth marketing critics have charged that MLMs are nothing more than pyramid schemes.

MLM companies have been a frequent subject of criticism as well as the target of lawsuits. Criticism has focused on their similarity to illegal pyramid schemes, price-fixing of products, high initial start-up costs, emphasis on recruitment of lower-tiered salespeople over actual sales, encouraging if not requiring salespeople to purchase and use the company's products, potential exploitation of personal relationships which are used as new sales and recruiting targets, complex and sometimes exaggerated

compensation schemes, and cult-like techniques which some groups use to enhance their members' enthusiasm and devotion. Not all MLM companies operate the same way, and MLM groups have persistently denied that their techniques are anything but legitimate business practices

Some sources classify Multi-level marketing as a *form* of direct selling rather than *being* direct selling. Avon, Electrolux, Tupperware, and Kirby all originally used single level marketing to sell their goods and that multi-level marketing was used in 1945 to sell the vitamin supplement Nutrilite

The Direct Selling Association membership had a 25 percent of MLM members in 1990, growing to a 77.3 percent in 1999.

Independent, unsalaried salespeople of multi-level marketing, referred to as distributors (or associates, independent business owners, dealers, franchise owners, sales consultants, consultants, independent agents, etc.), represent the company that produces the products or provides the services they sell. They are awarded a commission based upon the volume of product sold through their own sales efforts as well as that of their down line organization.

Independent distributors develop their organizations by either building an active customer base, who buy direct from the company, or by recruiting a *down line* of independent distributors who also build a customer base, thereby expanding the overall organization. Additionally, distributors can also earn a profit by retailing products they purchased from the company at wholesale price

Several sources have commented on the income level of specific MLMs or MLMs in general:

- *The Times*: "The Government investigation claims to have revealed that just 10 per cent of Amway's agents in Britain make any profit, with less than one in ten selling a single item of the group's products."
- Scheibeler, a high level "Emerald" Amway member: "UK Justice Norris found in 2008 that out of an IBO [Independent Business Owners] population of 33,000, 'only about 90 made sufficient incomes to cover the costs of actively building their business.' That's a 99.7 percent loss rate for investors."

- *Newsweek*: based on Mona Vie's own 2007 income disclosure statement "fewer than 1 percent qualified for commissions and of those, only 10 percent made more than \$100 a week."
- *Business Students Focus on Ethics*: "In the USA, the average annual income from MLM for 90% MLM members is no more than US \$5,000, which is far from being a sufficient means of making a living (San Lian Life Weekly 1998)"
- *USA Today*: "While earning potential varies by company and sales ability, DSA says the median annual income for those in direct sales is \$2,400."^[24] In an October 15, 2010 article, it was stated that documents of a MLM called Fortune reveal that 30 percent of its representatives make no money and that 54 percent of the remaining 70 percent only make \$93 a month. The article also states Fortune is under investigation by the Attorneys General of Texas, Kentucky, North Dakota, and North Carolina with Missouri, South Carolina, Illinois, and Florida following up complaints against the company.

MLM businesses operate in the United States in all 50 states and in more than 100 other countries, and new businesses may use terms like "affiliate marketing" or "home-based business franchising". However, many pyramid schemes try to present themselves as legitimate MLM businesses.

The FTC states "Steer clear of multilevel marketing plans that pay commissions for recruiting new distributors. They're actually illegal pyramid schemes. Why is *pyramiding* dangerous? Because plans that pay commissions for recruiting new distributors inevitably collapse when no new distributors can be recruited. And when a plan collapses, most people - except perhaps those at the very top of the pyramid - end up empty-handed."

In a 2004 Staff Advisory letter to the Direct Selling Association, the United States Federal Trade Commission (FTC) states:

Much has been made of the personal, or internal, consumption issue in recent years. In fact, the amount of internal consumption in any multi-level compensation business does not determine whether or not the FTC will consider the plan a pyramid scheme. The critical question for the FTC is whether the revenues that primarily support the commissions paid to all participants are generated

from purchases of goods and services that are not simply incidental to the purchase of the right to participate in a money-making venture.

The FTC warns "Not all multilevel marketing plans are legitimate. Some are pyramid schemes. It's best not to get involved in plans where the money you make is based primarily on the number of distributors you recruit and your sales to them, rather than on your sales to people outside the plan who intend to use the products." and states that research is your best tool, giving eight steps to follow:

- 1) Find — and study — the company's track record
- 2) Learn about the product
- 3) Ask questions
- 4) Understand any restrictions
- 5) Talk to other distributors (beware of skills)
- 6) Consider using a friend or adviser as a neutral sounding board or for a gut check
- 7) Take your time
- 8) Think about whether this plan suits your talents and goals

However, there are people who hold that **all** MLMs are essentially pyramid schemes even if they are legal, rendering moot the whole question of legality of any particular MLM program.

The Federal Trade Commission (FTC) issued a decision, *In re Amway Corp.*, in 1979 in which it indicated that multi-level marketing was not illegal *per se* in the United States. However, Amway was found guilty of price fixing (by requiring "independent" distributors to sell at the low price) and making exaggerated income claims.

The FTC advises that multi-level marketing organizations with greater incentives for recruitment than product sales are to be viewed skeptically. The FTC also warns that the practice of getting commissions from recruiting new members is outlawed in most states as "pyramiding". In April 2006, it proposed a Business Opportunity Rule intended to require all sellers of business opportunities—including MLMs—to provide enough information to enable prospective buyers to make an informed decision about their probability of earning money. In March 2008, the FTC removed Network Marketing (MLM) companies from the proposed Business Opportunity Rule:

The revised proposal, however, would not reach multi-level marketing companies or certain companies that may have been swept inadvertently into scope of the April 2006 proposal.

Walter J. Carl stated in a 2004 *Western Journal of Communication* article that "MLM organizations have been described by some as cults (Butterfield, 1985), pyramid schemes (Fitzpatrick & Reynolds, 1997), or organizations rife with misleading, deceptive, and unethical behavior (Carter, 1999), such as the questionable use of evangelical discourse to promote the business (Hopfl&Maddrell, 1996), and the exploitation of personal relationships for financial gain (Fitzpatrick & Reynolds, 1997)".

MLM's are also criticized for being unable to fulfill their promises for the majority of participants due to basic conflicts with Western cultural norms. There are even claims that the success rate for breaking even or even making money are far worse than other types of businesses: "The vast majority of MLM's are recruiting MLM's, in which participants must recruit aggressively to profit. Based on available data from the companies themselves, the loss rate for recruiting MLM's is approximately 99.9%; i.e., 99.9% of participants lose money after subtracting all expenses, including purchases from the company." In part, this is because encouraging recruits to further "recruit people to compete with [them]" leads to "market saturation."

Another criticism is that MLMs have effectively outlived their usefulness as a legitimate business practice. The argument is that, in the time when America was a series of relatively small, isolated towns and rural areas not easily accessible to small companies, MLM was an useful way to let people know of and buy products or services. But the advent of internet commerce, with its ability to advertise and sell directly to consumers, has rendered that model obsolete. So today nearly all modern MLMs ostensibly sell vastly overpriced goods and services (if there even is a real product or service involved at all) as a thin cloak of legitimacy, while their members are driven to recruit even more people into the MLM, effectively turning these programs into pyramid schemes.

It is because of this encouraging recruits to further recruit their competitors, some people have even gone so far as to say at best modern MLMs are nothing more than legalized pyramid schemes with one stating "Multi-level marketing companies have become an accepted and legally sanctioned form of pyramid scheme in the United States" while another states "Multi-Level Marketing, a form of Pyramid Scheme, is not necessarily fraudulent."

Some companies, many of them members of the Direct Selling Association, require their distributors to make minimum purchases ("pay to play") in order to be eligible for commissions and advancement in the business. For example, Nefful has mandated a minimum "personal sales volume" each month of US\$20 in order to receive commission.^[44] Such "incentives" are a "red flag" according to the Consumer Awareness Institute. WatchForScams.com also warns that such requirements which compel sellers to be "committed to a minimum sales volume per month" are a hallmark of potential scams.

Frequently such "sales" are not real sales, but rather the "seller" purchasing the minimum amount for themselves in order to fulfill the requirement for compensation. In fact, the Direct Selling Association's *Code of Ethics* states that qualifying sales may be "based on sales to individual direct sellers for their own actual use or consumption." The 2004 Staff Advisory letter to the Direct Selling Association from the United States Federal Trade Commission (FTC) notes that such minimum sales requirement may be used to "disguise these payments to appear as if they are based on the sale of goods or services"—thus a direct sale company avoids being found as an illegal pyramid scheme on the technicality that pyramid schemes have to make no sales, as in the *In re Amway Corp.* ruling.

Mumbai: The operations of shady multi-level marketing (MLM) companies — which operate what are popularly known as pyramid or ponzi schemes — have come under the regulatory scanner with shady MLM companies mushrooming across the country and duping investors. Many firms posing as MLM agencies for consumer goods and services have been actually mobilizing large amounts of deposits from the public with promises of ridiculous returns of 120 per cent and repayment of principal within a year.

In a circular, the Reserve Bank of India has alerted banks that in cases where accounts have already been opened in the names of the marketing agencies, retail traders and investment firms, the banks should undertake quick reviews. "Wherever large number of cheque books has been issued to such firms, the relative decision may be reviewed," it said.

With many MLM companies recently using the banking technology to dupe investors, the RBI said, "banks should be careful in opening accounts of the marketing/trading agencies etc. Especially, strict

compliance with KYC (know your customer) and AML (anti-money laundering) guidelines issued by the RBI should be ensured in the matter.”

The banking regulator also named seven MLM companies (Fine India Sales Pvt Ltd, Lakshya Levels Marketing, Eve Industries, Trident Advertising & Trade Links Pvt. Ltd, Super Life Link Distributors, Lue Brain Education Society and Manya Mantra Marketing). “These firms and their agents had reportedly promised very high returns on deposits and lured common people to part with funds in the name of certain investment/deposit schemes,” the RBI said.

MUMBAI: The Reserve Bank of India has asked banks to tighten the internal policy for fraud risk management and fraud investigation function as the incidence of frauds in Indian banks has been showing an increasing trend, especially in housing and mortgage loans, credit card dues and internet banking. “It is a matter of concern that instances of frauds in the traditional areas of banking such as cash credit, export finance, guarantees, letters of credit etc remain unabated,” the RBI said a year after the surfacing of the global financial crisis.

CONCLUSION:

To summarize the benefits of a good and reputable multilevel marketing company, it would have a product line or service, which has a ready and fast market; and it would constantly try to add similar, fast moving products to their existing list. It would not indulge in pyramiding, making new distributor recruitment a streamlined process. A new distributor would not be required to possess earlier experience and the company would cater to all the training needs and related materials, including resource material to help with product sales, and fresh distributor recruits as well.

The initial costs to start would be low. There would be dynamic leadership, providing motivation and catering to healthy team competition. They would have a successful marketing plan and a strong support system. There would be attractive incentives and bonus plans for those who excel.

Every business has its strong and weak points. Some of the drawbacks in MLM can be:

- (a) Getting attached to a disreputable MLM company
- (b) Creating a network or downline may be more expensive than you realized

(c) There may be a lot of money spent on outside meals, fuel, hotel accommodations etc.,

(d) Actual success in sales may be hard to come by

Because seventy-five to eighty percent of your contacts may result in rejections, you must be able to not take rejection personally. Multi-level marketing have its advantages and disadvantages. It has a fast growth but required tremendous communication skills to scale up the ladder.

When done the right way, MLM can be an extremely profitable and rewarding experience. Just make sure that you have done thorough research before embarking on this venture

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