

## **MULTI-LEVEL MARKETING. FEATURES AND CONTROVERSY**

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### **INTRODUCTION**

The idea of multi-level marketing is still relatively new on the Polish ground but is very popular in Western countries, where this model of business is still gaining supporters [Gregor and Wadlewski 2013]. The knowledge of the functioning this kind of business model is still insufficient among theorists and practitioners. The purpose of this article is to show what Multi-Level Marketing (MLM) is and what the mechanism of functioning is, if we talk about this kind of business model. To accurately present the MLM theoretical side, the reflections were based primarily on existing literary studies and on a case studies basis in practical application, to show how the business adopters of this strategy operate on the market.

The purpose of this paper is the introduction of problems of Multi-Level Marketing (MLM). Considerations are based primarily on studies of existing literature and an analysis of specific cases. Not enough knowledge of MLM is stopping the development of this form of activity, information gap may deepen erroneous interpretations of the same model, by presenting it as a pyramid schemes or as a categories of parabusiness. However, despite all these barriers conditioned by the lack of less knowledge on this subject, it can be observed increasing activity of companies in this kind of industry. More often MLM becomes strategy, which companies want to use and get competitive advantage.

## FUNCTION OF MLM

Multi-Level Marketing differently named network marketing or Network Marketing is an exceptionally interesting strategy for the distribution of goods and services. Don't fail considers it is one of the fastest growing and still the least understood methods to market [Failla 1996]. The barrier based on the lack of information on this topic and an incomprehensibility of the business model; cause a false association of MLM with direct sales, sales pyramidal or a financial pyramid. Charles W. King defines the phenomenon of Multi-Level Marketing as "it does not require significant investment, technologically advanced business model, reliant on building your own business, generating the highest revenue and income in the long term by the sale of products and services directly to consumers and the transfer to others to do the same" [King and Robinson 2000]. André Blanchard defines the phenomenon of MLM and emphasis on establishing and using contacts. The author says that this business model is based on distribution of goods and services by a network created through contacts and ties of persons concerned and participatory in the activities all members of the network [Blanchard 1993]. Moreover, the main mechanism for the functioning of the phenomenon is the construction of a personal sales on the basis its own network of contacts. The network is growing with the influx of new customers who are motivated by the additional benefits they actively participate in the process of promoting and selling products [Blanchard 1993]. The effect of the so-called network is possible to achieve by the MLM model assumptions, i.e. on building strong relationships with customers. These ties are the result of a sense of satisfaction with the benefits that customers receive when purchasing specific products and additional bonuses which reward for sharing your positive opinions about them [Otto 2004]. To sum up, the development of network marketing companies is possible only thanks to their customers who assume the role of distributors of products or services that they previously used. For activities related to the distribution of products or services, distributors receive appropriate compensation provided for in the compensation plan.

The idea of Multi-Level Marketing should be considered from two perspectives: the point of view of the originator and the point of view of distributor. The point of view of the originator, the person for whom the Multi-Level Marketing is one of the possible options the launch of a new product without incurring huge costs caused by its promoting [Failla 1996]. The second perspective is the point of view of an independent distributor. Multi-Level Marketing is a business model for him, which does not require an idea, nor bear the risks arising from capital investments. Distributor accesses to business, which is devoid of largely risk, as is the case even in the franchise or other typical business.

Multi-Level Marketing can be also defined as a method of product distribution. MLM assumes bear the costs of advertising and marketing at the moment of sales made. The sales will be powered by the company's customers, who use their network of contacts, start up the system of recommendation to purchase selected products. The recommendation for ending the actual sales, the company provides for monetary gratification, commissions accrued on the basis set out in a company's marketing plan. Properly drawn up a marketing plan makes it possible to obtain unlimited income and eliminating an investment risk.

## **MULTI-LEVEL MARKETING COMPANY AND TRADITIONAL MARKETING COMPANY**

In today's highly developed economy creating a product is not a problem situation. The whole process of development and production is only a small section of the road, that product must travel to reach a customer's hands. The most important is a distribution system, that is, all activities that must be performed to good went from the manufacturer to the direct buyer [Lenar 2013]. The distribution represents the largest share of the price of the final product.

The old business model centred on optimizing the production process and reduces related costs. Entrepreneurs conducting their business in the current highly competitive market need to be aware of the costs they incur for their activities. In many industries the cost of production is only 2 to 10% of the price of the final product. The remaining 90% of this expenditure on promotion, advertising, and distribution path [Lenar 2013]. This percentage distribution creates tremendous opportunities to make just to create the right distribution channel.

In the traditional distribution model to reach customers should invest in advertising and to create a network of intermediaries, such as wholesalers, warehouse and retail stores, which consumes considerable resources. Moreover, the shop owner leading his own business must regulate many other charges. The main expenses – for example: rent, utilities, employee compensation, compulsory insurance of employees, taxes or the sums spent on advertising. A significant part of the expenditure must be paid every month, regardless of the condition of the business. In the classic distribution all these costs and overheads of individual agents are added to the final price of the product [Lenar 2013]. Therefore, the path of the product from the manufacturer to the customer is very long, and the level of sales depends largely on the effectiveness of advertising campaigns.

On the other hand, in many companies of network marketing route product to the customer looks much different, and what is the most important difference is shorter. Furthermore, MLM companies often decide not to traditional advertising, so we usually do not see advertising products on TV or in the press, and we will not hear about them in the advertising. Distribution System of Multi-Level Marketing operates on different principles than this is done in the traditional sense. The product is supplied from the manufacturer by the distributor directly to the customer [Lenar 2013]. Here, the distributor is a person related with the company agreement. Distributor under that agreement can order products directly from the company. In MLM a network of distributors is responsible for the process of delivery of the product to the customer. In MLM the advertising takes a different form, namely it is powered by the oral product recommendations. The amounts that you can save on advertising are spent on salaries for distributors [Warzecha 2012].

The Table 1 summarizes the characteristics of traditional marketing and MLM in a business.

TABLE 1. Key features of the company which operating within the multilevel marketing and traditional company

Traditional company	MLM company
Financial benefits depend on the company's current turnover	The financial benefits will create a current turnover of the company and passive income
Efficient management of the company and market conditions determine the success of the company	The degree of cooperation with partners and the degree of commitment are conditions of the success of the company.
Need to involve high initial capital to start a business	The possibility to have a small financial capital to start a business
Company have to hire more and more employers	Company don't have to hire more employers
Creating the image of own-brand product or service on the market	Use best practices of know-how and proven brand image
High costs of the marketing and commercial	Low costs of the marketing and commercial
The ability to inherit a business	The ability to give a ready business
High costs of training employers	The main company offers support in the field of training and consultancy
This kind of business is very risky	This kind of business is not so risky
The owner's knowledge is the main source of the company functioning	Building a business based on knowledge, skills and experience of employers
Salary is obligatory	Salary is not obligatory
Promotion depends on the opinion of the others people in the company	Promotion is automatic, clearly defined and is independent of the opinions of other people in the company
The market share of relatively is small	The market share is unlimited

Source: [Warzecha 2010].

## CONTROVERSY AROUND MLM

Like was said in previous part MLM is a one of opportunity to quickly earn some money. Nowadays a lot of people are looking for a job which will give bigger satisfaction and let earn really big money. There could be many reasons, the most popular is that we don't like present job because we don't earn enough, or we hate what we do because is our obligation. A very often people need some extra money. We don't think about big extra money, we talk about regular income which will help strengthen household budget. MLM gives people a chance to earn fast and regular money but sometimes it is considered as an illegal pyramid scheme, where a few of people made real big money. There is much controversy regarding the MLM which should take a closer look [Failla 1996].

People who entered into the structure of MLM and earn don't think that this way of income is illegal. That was definitely one person (or more) was under the second, but no one does not believe it has been dragged into some sort of illegal network. In the picture number 1, we can see famous pyramid scheme. How it works? It's simple. It powered by itself, because it not only makes money on the side, the money flow down from earnings of persons below the level of the pyramid possessed. Such pyramids are cut in some countries because government want to protect people against loss of money. Many distributors

are building fantastic visions on the effectiveness of this type of system sales, promising new entrants mountains of gold. Organizers MLM Network premium on attracting new distributors, so they are not uncommon ensure that just half an hour of work a day, it's enough to make fast fortunes. On the other hand, they fail to ensure that profit is a sure but only for those hard-working, this division of opinion means that they are unreliable. Systems of direct sales are effective, under certain conditions, even very effective. Ensuring the success that is waiting for each participant is abuse, which discourages potential applicants [Failla 1996].

Very often around the sales techniques which are used by the distributors is created unnecessary mystery. Indeed, instead of effective distributors whose success depends on hard work and determination to the network are attracted to those who are its followers. This raises a very big controversy because many people are starting to believe that they will gain a fortune. They believe that product which they sell is wonderful and unique. Unfortunately truth is different. On the top of it, companies which deal with MLM tempt big business Gaul, which are usually held once a year, where the prizes are awarded for the best sellers for example exclusive cars or costly trips. This is an excellent hook for potential new vendors. Very often faith in the magical power of sale systems that make everyone a millionaire disappears quickly. Follower after a short period quit, doesn't any activity and in the best case sourcing products for their own use.

Many people find it difficult to imagine that the sale can make them happy. Give products more important meaning than they are, provides incentives for greater activity. The literal interpretation of certain phrases leads to many misunderstandings. The belief that sales of vitamin pills or shower gel can be associated with anyone's happiness leads to accusations that, network vendors are sectarian. This view still come back and builds stereotypical ideas about this form of trade.

In Poland for example might be an article by Father Andrew Wolpiuk entitled *Gos-samer economic sects*, which in 2007 was published on the website Ministry of Entrepreneurs and Employers *Talent*. The article outraged many people who are treating multi-level marketing as a source of honest and reliable earnings [WWW 1]. Confusion with this article keeps coming back, and multiple discussions arise on trade portals and online forums. Users of portals think that it's hard to be considered Sect as a business structure adjustable for earning profits. On the other hand, it is quoted government definition of a sect that is "A sect can be any group which have a highly developed structure of authority, characterized by a significant disparity purposes declared and implemented and hides standards significantly regulating the life of the members, which violates fundamental human rights and principles of social intercourse and its effect on members, supporters, family and society is destructive" [WWW 2].

In Poland, there were a lot of negative feedback about MLM that drive stereotypical threads and their strength manages to outlast ages. Accusations of hiding intentions directly result from the absurd assurances that there are sales techniques that are able to give full effect, known by the members of the network. Typically, this type of announcement was accompanied by charging a fee for membership. Secret knowledge contained in several clichés reflected on photocopying, and in the organizer of the project who treated it as a pyramid and run out with money. It is worth remembering those years, when today there are accusations of sectarianism. This is the price for almost a widespread lack of

ethics in the pioneer days. On the other hand, the dogmatic treatment above definition of sects can lead to surprising discoveries.

Each manufacturing facility has a highly developed structure of authority, sometimes a discrepancy of purposes declared and implemented, and there are not exposed to the public any standards significantly governing corporate life. The ethical issues concerning the environment of network marketers still have left a lot to be done. Myths can always come back like a boomerang, causing a lot of damage in the perspective of time. It's easy to hear assurances that the work in multilevel marketing is nice, likeable and easy, and that the profits are created the same, even if we devote to the work little time.

Interesting would be a report containing an in-depth analysis dedicated to this, how members of the network MLM recruit members, what they promise them and what tricks they apply. A superficial analysis make us think about the reasons why they hide the main objectives and principles of operation of the network and by covering the business Newspeak simply lie. Everyone knows that a goal of the multi-level marketing is the sale of goods and services. For everyone, it is clear and legible, in addition to those who are encouraging us to participate in the project. It would appear that the sale is on the list.

In the network, no one sells, but "informs about the product", "gains market space", "builds a relationship", "recommends solutions". As a result, reasonable people are starting to wonder how it is, that there are invented formulations such as to cover only and main goal, without which there would be no network, no premium for the acquisition of new members and no earnings. They arise from the percentage of sales made by new members that joined the network. In this way, no one has to sell anything. All that needs to be done is to encourage many new sellers to participate in the network, and your account will appear digits long economic effects. Such an opinion is, unfortunately, very popular in various forums or pseudo-guides MLM. Unfortunately, this is not true and it is reasonable to think about what would happen if all new members will only join the new cell and wait for profits? Such treatments cause the opinions that the participants of the network lie, in order to attract new members. An accusation that behind the activities of the network marketing companies lurks organizers of pyramid schemes also has its origins in the 90s of last century. The paradox is that in the 70s of the last century, the company's industry MLM in the United States beat to an alarm indicating the threat posed by various pyramid schemes and chain letters that were feeding on the popularity of network marketing. For more than three decades, there are provisions to allow precise separation of the pyramid scheme from network marketing, but for many people it is still insufficient argument.

We often hear opinions that accuse the organizers of the multi-level marketing of the fraudulent activities and exploitation of people. The confirmation of this statement is the fact that people higher up in the hierarchy earns more money compared to people who are in the hierarchy lower. It's hard to argue with such charges when it is hard to find any company in which the director earns less from the manager and the manager less than the employee. The hierarchical organizational structure, and consequently, the net wage is a general principle of organization of both small companies and large corporations. The paradox is the fact that only some MLM systems have designed marketing plans in which differences in wages are not due to the position in the hierarchy of the network, but the effectiveness of sales [WWW 2].

The problem of network marketing lies in the fact that it accumulated a lot of myths around it. It turns out that many of them are the results of the little ethical behaviour of people associated with this form of sales organization. Using half-truths in describing reality, MLM are surprised that these opinions come back to them later and are twisted, distorted and affect the efficiency of the whole sector. MLM industry is so large that it takes places many various processes in it. In this regard there aren't any differences from any other business. Some succeed, others hatch. There are ones who have earned a fortune in the network and the ones who do their best and can barely make ends meet. Network marketing is not a miraculous creation of a business that guarantees exorbitant profits in exchange for half an hour of work a day. It isn't also a sect that teaches members the secret sales techniques. This is a normal economic activity, which consists of a specific organization of direct selling products. As in any business you have to work a lot and have a little luck [WWW 2].

### **ENTERPRISES APPLYING MLM**

The most famous and popular example of enterprises operating in MLM is the auction company Zeekler, which allow high income, after investing and waiting for the first two months. Money flowed into the account after approval required notices on websites. There were advertising of online auction hardware. After half a year of the company, which many people gave a lot of money, and after the first payments for Solid Trust Pay or Payza (?), there was a big crash and Zeekler went bankrupt. Numerous calls to the prosecutor of Northern Carolina in the USA, about strange form of earning on the network, were the result of the proceedings instituted against the Zeekler company. The objections had also stock exchange. There were some irregularities in the registration of the company. According to lawyers, it was not a very big infringement. However, the system of MLM used in this company was declared an illegal financial pyramid.

Despite the many petitions to the prosecutor, the company did not return to the previous function. Zeekler company did not return to its former place on the web. Around 2 million people from all over the world were cooperating with Zeekler. They were in the structure of the company, which was earning for itself. The one was recommending Zeekler the other, and they were investing their savings with pleasure. People from the company were participating in the interior meetings twice a week. There were situations where it was difficult to get to the conference room because of the large number of willing people. Just before the solution Zeekler was having a planned to dedicate percent earned at auction money for poor children. There were proposals of meetings in greater cities, in the symposia form of a financial nature, in order to strengthen acquaintance. Recommending of Zeekler usually concerned immediate people. Many people were from the notice, which members of Zeekler company were publishing up as part of theirs work on the American websites.

In Poland, the most popular company, which is using MLM, is founded in 1994 by Arthur Trawiński FM Group. Three years later, it founded FM Group World. The company is selling mostly cheap and "miraculous" cosmetics and dietary supplements. Both companies generate millionth revenue. Once a year in Wroclaw is a great gala for em-



ployees of the FM Group. In one article the journalist Katarzyna Dębek described the gala as a great festival, which ran through the streets of Wrocław lane of 100 Mercedes escorted by the police and you could look at the latest model of class A. Later, there were sales training and championships in football and finally nail of the program - giving cars and diplomas for the best sales results. The words “success” and “Mercedes” in all possible cases were oozing from the speakers, and the happy traders were reclaiming the keys to a new car and were thanking and asserting that everyone can land their place. FM Group company takes new traders with pleasure, tempting that the unemployed day by day can become a millionaire and pick the coveted Mercedes up.

While working for a long time on similar principles international stars of direct sales: Amway or Avon, they slowed, the company of Arthur Trawiński is like a storm. For his success are working more than half a million people worldwide. In 2012, he joined to the ranks of the richest Poles. The company producing cheap perfume within six months of implementation by junior clan of system MLM doubled revenues and is constantly growing. In 2007, it sold cosmetics for 46.5 million PLN and at the end of 2010 for 93 million PLN. The idea of selling perfumes produced by the father in the direct system was born in Australia.

The owner of FMG company was there to improve his English. On the homebred market of direct sales valued at 2.6 billion PLN (only 0.5% of the whole internal trade) 70% comes from the sale of cosmetics. Trawiński had an access to the products. To start recruiting of dealers, he needed catalogues and his own marketing system of MLM, i.e. a tree of final settlements and commissions and a relationship between distributors and safeguards against abuse of associates. The ready computer programs to manage this type of project you can buy for 50 thousand PLN. However, Artur Trawiński created his own IT system. Consultants supporting is the essence of this business model. However, the system must maintain a balance between a profit for the owner and for the sellers.

They need a constantly motivation and we shouldn't regret for the loyalty programs. The rules of cooperation with FM company define the so-called marketing plan. For purchasing of products the distributor will get points and if he builds a profitable structure, he can earn the additional commissions. On the first part of the plan – the so-called magnolia club, the distributor can achieve levels of efficiency from 3 to 21%. On the second – the orchid club – apart from the commission, he receives a certain percentage from the scoring turnovers of FM Group World. The well-wrought incentive system, the rewarding for good results, a lot of luck and people – Trawiński says [Dąbek 2012].

## CONCLUSIONS

In Poland business concept based on the pillars of Multi-Level Marketing is still not so popular as a form of product distribution. The reasons for this we could find in the non-exhaustive topic achievements of literature and in popular stereotypes. It is the lack of reliable knowledge caused curvature of the true image of MLM and scepticism about the effects presented by independent distributors. Moreover, unfair business practices, conducted by the company they considered to be network marketing, led to a large distance consumers to these practices, causing stagnation in the industry.



The idea of Multi-Level Marketing is not always well understood and confused with pyramid schemes, gathered a lot of negative feedback, and as a result the obverse from the public. People who are working in this sector have to work hard to contribute to the restoration of confidence among the public and show the better side of this business. Therefore, it is a space for business people determined, conscientious and organized able to work, are ready for daily challenges.

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**Summary.** Multi-Level Marketing is a kind of novelty in the business reality. The greatest popularity gained in Western countries, where it functions as a kind of hybrid method in distribution of the goods with the design of the sales network. It is one of the most secure business models. In Poland the awareness of this type of activity is still small and remains a wide spectrum of scientific research. This situation has led to the creation of this article. The aim of the publication is to highlight the problems of Multi-Level Marketing, an indication of the essence of this phenomenon, and show how far is different than traditional marketing. The article presents the system of functioning of this kind of business, how it works a system of charging commissions and indicated a practical example of this system. Considerations based on literature studies and case studies.

**Key words:** marketing, network of connections, commission system, business model.

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