

Multi-level marketing flashcard



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Multi-level marketing (MLM), also known as Network Marketing, is a business-distribution model that allows a parent company to market its products directly to consumers by means of relationship referrals and direct selling. 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 parent company and are awarded a commission based upon the volume of product sold through each of their independent businesses (organizations).

Independent distributors develop their organizations by either building an active customer base, who buy direct from the parent company, or by recruiting a downline 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 parent company at wholesale price. Distributors earn a commission based on the sales efforts of their organization, which includes their independent sale efforts as well as the leveraged sales efforts of their downline.

This arrangement is similar to franchise arrangements where royalties are paid from the sales of individual franchise operations to the franchisor as well as to an area or region manager. Commissions are paid to multi-level marketing distributors according to the company's compensation plan. There can be multiple levels of people receiving royalties from one person's sales. Legitimacy It is sometimes difficult to distinguish legal and reputable MLMs from illegal pyramid or Ponzi schemes.

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. In the most legitimate MLM companies, commissions are earned only on sales of the company’s products or services. No money may be earned from recruiting alone (“ sign-up fees”), though money earned from the sales of members recruited is one attraction of MLM arrangements.

If participants are paid primarily from money received from new recruits, or if they are required to buy more product than they are likely to sell, then the company may be a pyramid or Ponzi scheme, which is illegal in most countries. New salespeople may be asked to pay for their own training and marketing materials, or to buy a significant amount of inventory. A commonly adopted test of legality is that MLMs follow the so-called 70% rule which prevents members “ inventory loading” in order to qualify for additional bonuses.

The 70% rule requires participants to sell 70% of previously purchased inventory before placing new orders with the company. There are however variations in interpretations of this rule. Some attorneys insist that 70% of purchased inventory should be sold to people who are not participants in the business, while many MLM companies allow for self-consumption to be a significant part of the sales of a participant. The Federal Trade Commission (FTC) offers advice for potential MLM members to help them identify those which are likely to be pyramid schemes Compensation plans

Companies have devised a variety of MLM compensation plans over the decades. Stairstep Breakaway plans This type of plan is characterized as having representatives who are responsible for both personal and group sales volumes. Volume is created by recruiting and by retailing product. Various discounts or rebates may be paid to group leaders and a group leader can be any representative with one or more downline recruits. Once predefined personal and/or group volumes are achieved, a representative moves up a step. This continues until the representative... “ breaks away” from their upline.

From that point on, the new group is no longer considered part of his... upline’s group – hence they are a “ breakaway”. Stairstep Breakaway plans are not level based. Unilevel plans This type of plan is often considered the simplest of compensation plans. Uni-Level plans pay commissions primarily based on the number of levels a recipient is from the original representative who is purchasing the product. Commissions are not based on title or rank achieved. By qualifying with a minimum sales requirement, representatives earn unlimited commissions on a limited number of levels of downline recruited representatives.

Matrix plans This type of plan is similar to a Uni-Level plan, except there is a also limited number of representatives who can be placed on the first level. Recruits beyond the maximum number of first level positions allowed are automatically placed in other downline (lower level) positions. Matrix plans often have a maximum width and depth. When all positions in a representative’s downline matrix are filled (maximum width and depth is reached for all participants in a matrix), a new matrix may be started.

Like Uni-Level plans, representatives in a matrix earn unlimited commissions on limited levels of volume with minimal sales quotas. Binary plans: A binary plan is a multilevel marketing compensation plan which allows distributors to have only two front-line distributors. If a distributor sponsors more than two distributors, the excess are placed at levels below the sponsoring distributor's front-line. This "spillover" is one of the most attractive features to new distributors since they need only sponsor two distributors to participate in the compensation plan.

The primary limitation is that distributors must "balance" their two downline legs to receive commissions. Balancing legs typically requires that the number of sales from one downline leg constitute no more than a specified percentage of the distributor's total sales. Hybrid plans are compensation plans that are constructed using elements of more than one type of compensation plan. Criticism of MLM The Federal Trade Commission (FTC) issued a decision, in 1979 in which it indicated that multi-level marketing was not illegal system.

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". Criticisms have been raised against various MLM programs for being cult-like in nature. Some MLM programs feature intense motivational programs, which can be hard to distinguish from cult propaganda. So-called corporate cults are businesses whose techniques to gain associate commitment and loyalty are in some ways similar to those used by traditional cults.

Amway associates are sometimes cited as an example of such devotion. In the end, I would like to give you some examples of companies using this MLM system: first of all, Amway, the biggest company of direct selling, commercializes nutritional supplements, cosmetics, cleaning products. Forever Living, another company using the MLM system, sells products based on natural ingredients especially Aloe Vera, known for its health benefits. Another examples, Avon and Oriflame, cosmetics companies and Zepter which produces, sells and distributes exclusive high-quality consumer goods.