

Pyramid schemes and multilevel marketing

The good, the bad and the ugly

Author: Nicole Wills

How many people feel completely assured that they will retire comfortably?

Are we even sure that our investments will be worth something in 30, 40 or 50 years? Let's be honest, most of us have that nagging doubt that they may not be, and what then?

What are the alternatives to creating wealth with long-term sustainability?

Is there something about direct selling and multilevel marketing that we should know, and may not?

There is enormous allure to the promise of easy cash, working from home and being your own boss. Everyone has heard someone they know talk about this amazing way to achieve financial freedom.

And, if network marketing is so easy and provides such quick wins, why isn't everyone you know doing it?

First, we must understand the difference between a pyramid scheme and a multilevel marketing company (MLM).

A pyramid scheme, the illegal kind, the kind with which you associate names like Bernie Madoff, does not involve the selling of products. The business model is structured like a pyramid, starting with the person at the top of the pyramid. Each person is required to 'invest' money and recruit more investors in order to make their money back. Logic dictates that a bigger profit is made, the higher up you are in the pyramid, hence the urgency with which recruiters try to sign up people below them.

The process continues until the base of the pyramid is too big to sustain any more recruits, and those at the top of the pyramid walk away with the money.

Let's just agree that these should be avoided at all costs. There is only ever one winner, and his name is, likely, Bernie. That is, until he is imprisoned. Then he is sad and poor Bernie.

Multilevel marketing

Network marketing or multilevel marketing is an alternative way to market products to the public. These are products that customers cannot buy in a traditional retail environment. They are sold through independent, non-salaried distributors. Importantly, it is a legal form of marketing and distribution.

Why are these two so often confused?

Because the business model used in MLM is also shaped like a pyramid. The people at the top of the pyramid have been in the business longer and earn money from those in their 'downline'.

There are two ways to earn revenue:

1. Purchase products at a price and then sell them on to whomever, at a higher price, and achieve a profit margin.

2. Recruit people – your downline – to sell on your behalf. This way, you earn a percentage commission on the products they sell.

Since these products are not available through general retail distribution, they need to have word of mouth assurance that they are credible or superior products.

How big is this economy?

Globally, the network selling market is worth \$40 billion. In the South African context, this sector is growing, and in the midst of a downgrading economy, consistently showing positive growth.

Statistics from 2017 indicate that there are approximately 1,3 million independent business owners contributing R12,9 billion to the economy.

Support industry offshoots

MLM has created various offshoot industries, and this has spawned the term 'attraction marketing', which proposes to teach business owners to attract customers who already want to buy the products you have on offer. Various online support systems have been created, such as MyLeadSystemPro.com who teaches how to generate more leads.

Network21 is a training and support organisation specifically for Amway distributors. It is one of the largest adult education platforms in the world and claims to have created more millionaires than any other sales support platform globally.

If it seems that many are benefitting from this method of creating revenue, what do you need to know?

As mentioned, stay away from pyramid schemes where you're asked to invest money with the promise of a bigger financial return. If the dangling carrot doesn't seem real, it isn't.

Besides, it's illegal.

Multilevel marketing companies seem to have different structures and rules of engagement and, if you're interested in knowing more, do your research and ask the following questions:

1. Do I need to pay or 'invest' to join?
2. Is there a minimum amount of product that I need to purchase and/or sell in order to remain part of the structure?
3. How many people do I need to recruit? Is there a time limit for this? Do I want to?
4. Will I have to sell products to people that they don't want or need?
5. Can I still benefit from being a member of an MLM even if I choose not to recruit any other members?
6. Is there a penalty for not actively promoting products?
7. Is the organisation regulated or self-regulated?
8. How much time needs to be invested each week or month and will I be able to set aside this much time?

In a world where many industries, professions and business models are being shaken and rattled by the 4th Industrial Revolution, it stands to reason that many of us are investigating different forms of revenue stream creation. It might be worth looking at those that have created success in the past 50 years along with the advent of new

industries. But do remember, if it glitters, it isn't always gold.

** Note: At the time of writing this, I am not a member of any multilevel marketing company, but who knows what the future holds... I'll WhatsApp you from my island in the Caymans.