

# **A Study Of Multi-Level Marketing (MLM), As A Potential Tool For Socio-Economic Development**

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## **Abstract**

Multi Level Marketing (MLM) is embracing more and more arenas today. Insurance business is just one among them. Selling Insurance policies, traditionally, is considered as a de-motivating and dragging job. Well, not until you discover the power of MLM to boost policy sales. With the competition heating up in the Insurance sector, companies are looking for innovative methods to spread the message and garner maximum business in shorter time. Many local MLM companies having quite large spread in the market are joining hands with leading insurance brands to promote their products along with an assortment of their own products. Insurance sector makes available long term debt for the economic development of the country. At the same time, the MLM route provides employment opportunities to lakhs of people and enhances their social status. The MLM members also get tremendous opportunity to develop themselves personally. This multiple role of MLM companies can be looked at as a social contribution and these companies or cooperatives are emerging as a development oriented social movement. This article studies the economic and social impact of MLM as a tool which can influence society through employment generation, mobilizing long term funds and improving quality of life of people.

**Keywords:** MLM, Referral sales, Cross selling, Insurance policy, business plan

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## **Statement of the problem**

Successful Personal selling based on referrals is the key to ensure regular expansion of customer base and building long term customer relations. A country like India offers immense potential to build well run marketing networks to promote consumer goods and appliances. Conventional marketing may become slow or stagnated over a period of time. Multi level marketing may be the turnaround tool in such situations. This paper presents a study on the proliferation of MLM in the Insurance Industry and analyzes the reasons for its apparent success so that further improvements and extension in to similar businesses can be considered.

## **Methodology**

An in-depth study of the MLM concept is conducted using literature survey and interview with company personnel. Data on the business plan with respect to incentives or total earnings is analyzed in comparison with a traditional entrepreneurship business. Business model of a leading MLM company is analyzed as a Case study. Inferences are made on the unique features of the model and possibility of extending it to other industries.

## **Introduction**

Concept selling mostly uses Personal selling as a tool where the sales person depends on referrals. If he is successful in generating referrals from each customer, this will have a multiplication effect in the client database, in a very short time. This concept is knowingly or unknowingly employed by many of the successful salesmen irrespective of the product or industry. In MLM, technically, the promotion expenses on advertising, channel margins etc is distributed among the members as incentives. Many FMCG and appliances companies like HLL have started an MLM arm also. A close look at various MLM models reveals its strength and unique features which provides competitive advantage.

## **MLM concept revisited**

It is common knowledge that MLM works on the concept of time leverage. A work to be done by you in 100 days can be completed in one day if you have 100 people under you ( in a chain ) doing one days work. You earn a % of incentive for the work done by each of these 100 people.

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Though it is given various names like Network marketing, freelance marketing, chain marketing (money chain in a negative sense), the basic principle is that a happy consumer brings in more customers for which he is getting an incentive. The net work plan or income schemes vary from company to company. The more reputed companies in MLM in India and abroad are, Amway, Modicare, Oriflamme, Tupperware, Quantum, RMP, Goodways, Placement Services etc. All these companies have web based information system where a member can monitor the growth of his down line memberships, incomes accrued etc. The visible part of the network is a distribution center ( for product based MLM ) and weekly meetings of members and prospective members to explain the business plan, demonstrate products, recognize the achievers etc.

#### **Increasing agency margins on products**

Average margins on first premium for policies like ELSS have gone up in the range of 30 to 40%. This has given the leverage for structuring the insurance sale through MLM. Though a conventional LIC agent is reluctant ( forbidden by IRDA ) to pass on any 5 of his commission to the client, MLM companies , in anticipation of bulk business and cross selling opportunities part with or reinvest a major % of their insurance commission to the members of the network ( as per a business plan ). This huge incentive makes the investment in insurance very attractive for a member, especially those who are in the tax brackets and must invest in tax saving instruments.

#### **Triple benefits for the MLM member who buys insurance**

There can be 3 types of incomes for a person buying insurance (say, ELSS) through an MLM.

1. He is getting Tax saving benefits as per the rules. An average tax payer can save 20% of the premium amount as taxes. Again the MLM Company offers discounts on premiums for renewals also.
2. He is offered a valued gift like a mobile phone or a bundled offer for insurance plus a few other products priced very low (below MRP).
3. The person becomes a member of a MLM chain and eligible to pursue the MLM business as a part time income generating opportunity. He automatically becomes part of a large distribution network and can recommend a host of products to his friends/relatives/associates. These are commonly purchased products from popular dealerships in his town. Whenever a purchase is made by another person recommended by him, he earns an incentive.

#### **A case study**

The systems and operations of a typical local MLM company which deals with Insurance products of a Brand leader were studied and the following information collected.

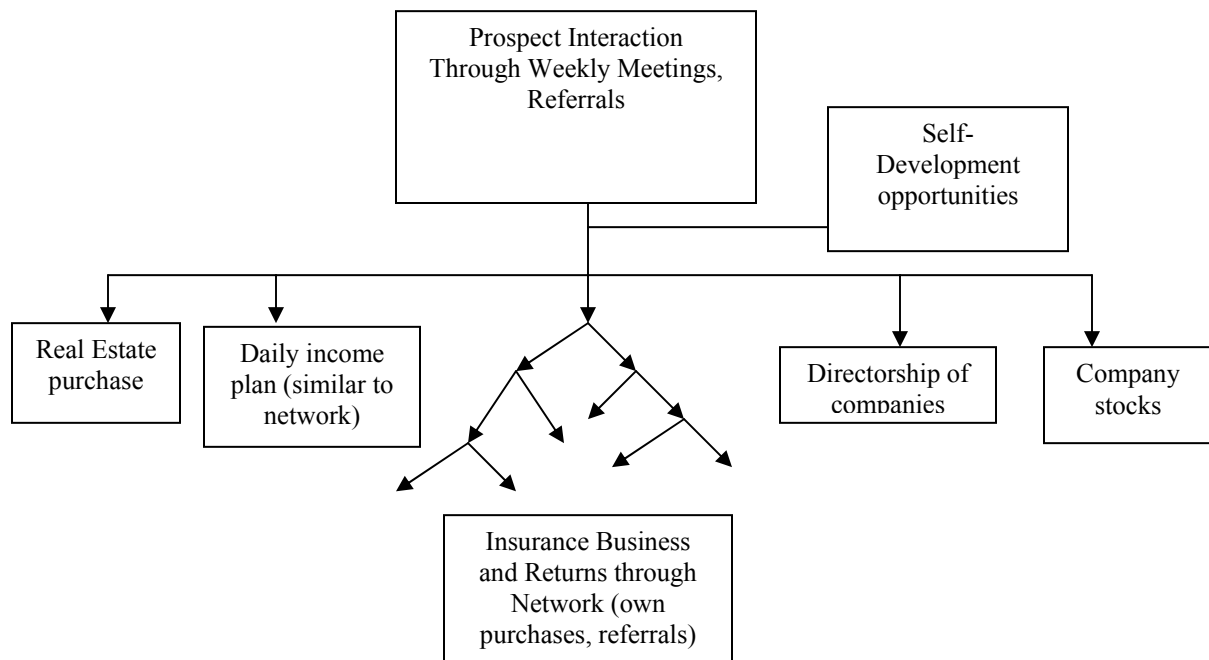
**Company-** Hilife Ltd, is promoted by a reputed local business man and registered as a Public Ltd Company under companies act. Shares are held by the promoters as well as some of the high achieving members of the MLM who reach a certain level of business called MD's Club. Company says they have plans to list the shares in Bombay stock Exchange after 2 years and claims that the listing value could be Rs. 300 for a Rs. 10 share, reflecting the profits and financial position of the company.

**Products-** Company deals with ELSS Insurance products of a brand leader. A person can enter the MLM network only by purchasing a ELSS policy (premium paid can be as low as Rs. 5000 in a year for 3 years. The insurance company claims that this investment could double in 6 year's time with the present market growth. The MLM company gives a color mobile phone free (worth Rs 3500) for any client joining the MLM by purchasing this insurance policy. Company also offers annual incentives in the form of lowering the premium amount. For example, a member who buys a 3 year, Rs. 15,000 p.a premium policy need to pay only Rs. 10,000 as second year premium and also as third year premium. This discount is offered from the profits of the company.

#### **Other Retail products**

Be a customer, bring customers. Company is tied up with a host of local dealers (about 60 shops selling consumer electronics, computer education, automobiles, textile, jewelers) in the local

towns and the MLM member can recommend his friends/ relatives/ associates to purchase these items from the specified shops. For each purchase made, the member gets incentive points which work out to 3 to 5% of the price. A member can route his own purchases also through this network of dealers. In order to coordinate member purchases, company has started a Franchisee network in major towns to display and sell all products from associated dealers/ retail suppliers. They are also planning to build their own super markets in selected towns.



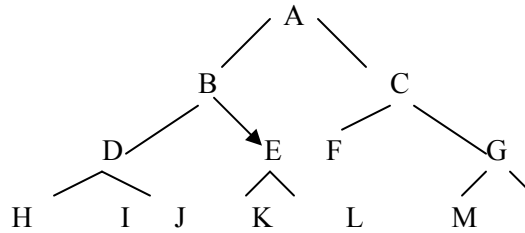
**Fig. 1. Model of Insurance and other products selling using MLM**

**Perusing the MLM business**

Once the member becomes part of the MLM network, as time and desire permits, he can try to expand his down-line network by making more and more members join the network. This is the point at which he has to make use of all his contacts and connections among friends, relatives, associated to impress them and invite them to join the network. This is similar to the method used by insurance and other direct marketing companies to expand network inviting unemployed, part time employed, housewives, NRIs, VRS persons offering an opportunity to earn part-time.

**Business plan of the MLM network**

Typically the down-line network of a member grows in a pyramid fashion. There is a restriction that one member A can directly appoint only 2 members under him (B and C or Right and Left). He can invite further members, but they have to be put under B or C. this is applicable to all members and this creates a situation where a member is forced to help the down-line while expanding his own business. The following diagram explains the network expansion sequence.



**Fig. 2 Network Expansion**

The first member A can enroll only 2 members B and C. If he gets another prospect D, he has to enroll him under B or C (here it is under B). There are some more rules like balanced expansion of Right and Left sides of the diagram for which more incentives will be applicable. The % of income from each addition at lower level comes down, but by the time, the network would have expanded considerably to get good over all returns. Normally when the total size of down-line reaches 50 or 100, income levels will be in lakhs of rupees. Sometimes, there is a cap on maximum monthly earnings. All payments are net of Income Tax deducted at source and hence Governments also get a share of the earnings indirectly.

Company has a parallel income network where low value items like news magazines, movie tickets, theme park tickets are also offered for sale through the members. This is called daily income scheme, which keeps their income clocks ticking.

### Conclusion

A MLM member who progressively advanced through the network will get opportunities to attend weekly meetings, share his success stories with other members, get rewards for performance etc. This will also provide opportunities to improve their presentation skills, communication skills, motivation levels and inter personal skills. Many people realize their true potential and selling skills after joining a good MLM network. That way, it helps them to develop personally also. So the MLM members look at the business as income, fun and self development, besides satisfaction from showing the way or providing opportunities to fellow countrymen. Networks with membership numbers in a few lakhs are providing an employment opportunity for unemployed youth and other sections of society. By mobilizing large amount of funds through Insurance sales, they indirectly help the economic progress of the country also. The early negativism in the society about Multinational MLM companies like Amway is gone now and they can play an increasing role by creating jobs and mobilizing long term funds. Irrespective of the business plan and earning pattern and other advantages, MLM concept is likely to be stretched to more and more products or concepts. With the recent changing in laws relating to contract employment, part- time employment etc, many enterprising youth may embrace it as a source of second income.

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