

Direct marketing against multi-level marketing, pullback and implication

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Abstract

The goal of this paper is to further explain the process of direct marketing and multi-level marketing. Direct marketing is a type of advertising that uses tangible materials such as catalogs and fliers to communicate information about a particular product or service to potential customers. The information is aimed at potential customers, thereby allowing for a more accurate forecast of sales. This means a cost-effective means of advertisement to corporations or organizations with a small advertising budget. Multilevel Marketing (MLM) is, on the other hand, a technique for sales distributors to concentrate more on recruiting new members who will become sales distributors themselves. However, good recruiting is crucial for the very survival of most direct selling companies, including multi-level marketing organizations, because the viability of these entities depends on the ability to make more and more new hires to replace those who have ceased to be hired. MLM distributors may have a partnership with both their "upline" sponsor and their "downline" contractors. They often regularly cooperate through joint recruitment meetings and sales training sessions. Distributors of multi-level marketing companies foster a mixture of friendship and instrumentality in expanding networks, and the long-term incentive of these MLM chains is that, with each new individual recruited, the recruiter will receive a certain amount of money each time their downline sells something. The balance is used to pay the salaries of higher-level officials in the MLM hierarchy. "Some MLM initiatives have all the implications and characteristics of the pyramid scheme, but the MLM industry has nevertheless been allowed to continue and flourish, and this paper concludes that, while the MLM industry is controversial, it must be evaluated and assessed from a number of points of view, such as morality, culture and the country in which it is implemented.

Keywords: Direct Marketing, Multi-Level Marketing, Pullback and Implication, Recruitment Chain

1. INTRODUCTION

It is known by different names: Multilevel Marketing (MLM), Network Marketing (NM) and Network Marketing Direct Sales Organization (NMDS). Regardless of what it is called, MLM (the label preferred here) is a much-maligned type of direct retail distribution channel. MLM businesses are increasingly being scrutinized by government regulatory agencies in the European Union, the United States and the People's Republic of China. It is argued that the MLM firms, the MLM retail distribution channel in general, and the particular method of distributor reimbursement are illegal pyramid schemes. The level of internal consumption identified by Peterson and Albaum (2007, p. 317) is increasingly being suggested by government agencies in the European Union and the United States as a possible measure of pyramiding (2007, p. 317). As the practice of an employee or other form of company representative buying goods or services at a discount from the list or at a normal market price from his or her employer (or other principal) for his or her own use or consumption. Multi-level marketing opponents go beyond the question of legality and argue that it is an immoral way of doing business on its own. One voice critic of MLM has gone so far as to say that 99.94 per cent of participants in MLM companies are losing money (Taylor, 2005). Hyman (2008, p. 14) cites examples of "normal" distributors in the United States with a profit capacity of less than US\$ 1,000. Seale, on the other hand, (2007, p. 22) points out that research by the United States Direct Sale Association shows that the average gross income is approximately US\$ 14,500 and the median income is US\$ 2,500. Robinson (2006) argues that more than 50 % of participants in direct sales (including those in MLM systems) report making money, while Muncy (2004) argues that multi-level marketing is a retail field that offers a valuable economic and business purpose. As we can demonstrate later, people are interested in MLM for a number of reasons, and this accounts for relatively small average earnings.

To a certain degree, the problems surrounding the practice of multi-level marketing fit within the realm of what Madichie (2009) called "the difference between the training in marketing theory and the marketing practice framework." Marketing is seen by Madichie (2009) as being at a crossroads that could entail a redefinition, as it is now taught as a discipline. Similarly, Corkindale (2009) is challenging eight key marketing concepts and practices for their significance today. The aim of this paper is to discuss a better understanding of two marketing

strategies with the statement by Milne and other researchers, "The direct marketing industry is growing, with more organizations adding direct marketing activities to their communications mix. Much of this expansion is due to rapid technological improvements and certain marketing practices, particularly direct marketing. (Milne, Beckman & Taubman, 1996), it is now of the utmost importance to be in a competent position to exercise influence over decisions and buying power. Direct marketing facilitates the distribution of information on products and services to a particular consumer community. However, with the abuse of databases containing the private and sensitive personal details of customers, it has now become a concern for either distribution distributors or consumers to carry out retail and buying activities. On the other hand, the technique of multi-level marketing (MLM) is now sitting on a contentious seat. This is triggered by the pyramid scheme that focuses mostly on recruitment of potential members who will first pay a certain amount of high registration fees. These payments would become the paychecks of the higher-level officers of the MLM hierarchical structure. This paper offers insight into Direct Marketing and Multi-Level Marketing, describing myths, Pullback and benefits, Pyramid Schemes, misperception and Implications. This is accompanied by the effect of all marketing campaigns on the view of both distributors and customers. This paper will conclude with a short discussion and a conclusion of thoughts.

1.2 What is multilevel marketing?

Multi-level marketing (MLM) is a method of direct retail sale (i.e. face-to - face sale away from a fixed retail location) that, by definition, has a multi-level compensation structure. Direct sales, like MLM, is a specific retail distribution channel where salespeople or distributors are engaged in business for themselves and work as independent contractors. They sell to customers, including themselves, and as such, MLM is a form of consumer marketing. 3 How widely spread is direct selling? More than 20 years ago, Peterson, Albaum and Ridgway (1989) reported in their study in the United States that 57% of respondents had Buying a product or service from a direct selling organization during the 12 months prior to data collection. More recently, Brodie et al., (2004, pp. 7-8) in their study of eight countries reported that the percentage of respondents indicating they had Buying from a direct selling Organization during the 12 months prior to data collection ranged from 25% in Finland to 72% in South Africa, with the mean average for the

eight countries being 46%. It is clear that the “popularity” of the direct selling approach to retailing varies widely.

In 2010 the Federation of European Direct Selling Associations (FEDSA) reported that retail sales of direct selling firms in European Union countries were €10.7 billion and the number of sales persons was 4.0 million (www.fedsa.be). In contrast, in the United States in 2009, retail sales by direct selling firms, including MLM companies totaled US\$ 28.3 billion (www.dsa.org/research) and there were 16.1 million sales people (distributors), 99.1 per cent of whom worked less than 30 hours a week and 86.4 per cent were female. Total retail sales of direct sales companies in 2009 (the latest year for which these data are reported) totaled US\$ 117.5 billion and the total sales force consisted of 74 million distributors (www.wfdsa.org/statistics). In 2009, more than 90 percent of direct selling companies in the United States were multilevel firms and they accounted for more than 90 percent of the retail sales revenues and almost all of the distributors. In 2004 (the latest year for which data are available), about 80 percent of direct selling companies globally were multilevel marketing companies (Ho, 2004, p. 56). This figure undoubtedly is greater now. Major direct selling product categories include personal care, home/family care, wellness, leisure/educational, and services. Many of the major companies are well known internationally, such as Amway, Avon, JAFRA Cosmetics, Herbalife, and Mary Kay Cosmetics.

Multilevel marketing is a way of distributing products or services in which distributors earn income from their own retail sales and from sales made by other direct and indirect recruits, that is, people they have recruited to sell, and people their recruits have recruited, into the direct selling organization as distributors (Vander Nat & Keep, 2002, p. 140). Technically, multilevel marketing is not a type of marketing but rather is a form of compensation (emphasis added) in a direct sales company where the salesperson can earn money on his or her own personal retail sales and also on the sales of people he or she personally recruited into the business and on the sales of people recruited by their recruits (World Federation of Direct Selling Associations, 2011a, p. 1). A distributor’s own sales include products consumed by the distributor himself or herself, that is, internal consumption. Thus, MLM companies are direct selling organizations that depend on personal selling, and that reward distributors (salespeople) for (1) buying products, (2)

selling products, and (3) the Buying and sales made by individuals they recruited to become distributors (Coughlan & Grayson, 1998, p. 402).

Although recruitment of others to join an MLM network is encouraged, no rewards are given for the simple act of recruitment (emphasis added). The only rewards from recruiting others come from the sales made, and the consumption by, those recruited (Berry, 1997, p. 76). True multilevel marketing involves the development of a legitimate retail selling and distribution network (emphasis added) that grows by social networks (Coughlan & Grayson, 1998, p. 425). Such organizations sell real goods and/or services and do not ask distributors to take significant financial risks (Salter, 1997, p. 5). Since the MLM distribution organization works at different levels (i.e. down lines and up lines or more broadly downstream and upstream), distributors can order goods directly and collect commissions (bonuses) directly from the company. This is known as direct fulfillment, as opposed to indirect fulfillment, whereby so-called down line distributors must work with 4 their up line 'masters' for product ordering and distribution and for the payment of bonuses received. As in all forms of direct sales, MLM distributors buy the products or services they sell or consume themselves from the MLM Company and then add a profit margin for sales made to consumers not in the MLM organization. Neil Offen, former president of the United States Direct Selling Association, has identified six distinct types of direct selling salespersons, including those working for MLM firms (cited in Roche, 1995, pp. 106-107):

- The career seller, direct selling for this distributor is his/her major source of income.
- Part-time permanent sellers, this distributor needs the income, but have only a limited amount of time available.
- Short-time objective sellers, this distributor has a specific objective in mind, such as earning enough money to buy a refrigerator. Such a person may be in and out of direct selling throughout the year.
- Socially conscious sellers, this distributor believes strongly in a product's value to society and wants to share it with others.
- Social contact seeker sellers, this distributor is in direct selling for the recognition that is given to people for their efforts.

- Internal consumption sellers, this distributor buy a product or service at a discount for personal or family use.

The World Federation of Direct Selling Associations categorizes direct salesmen in a similar way. The different types of salespeople are focused on individual reasons for entering and staying associated with an organization. Individuals are often more than one type at a time and can switch from one type to another. Depending on their person and changeable motives, so there is no data on the percentage of salesmen in each group. The interpretation of multi-level marketing requires an understanding of the forms of direct sales distributors. Although some distributors may mainly be in-house buying vendors, internal consumption is usually seen by all types of distributors. Indeed, as Luce (2006, p. 62) pointed out, many prospective distributors want "an excellent commodity that they enjoy so much that they buy it for themselves." Employees and distributors that use the goods of their businesses may also be more successful and believable spokespersons. To explain this, Jennifer Azzi, a former university, Olympics, and women's professional basketball player in the United States, has grown from a USANA (nutritional supplement) consumer to a distributor. She said, "I'm using the goods and asking others to take them. It's something that I believe in. If I did all that, why wouldn't I be a distributor?"

A standard compensation structure for MLM organizations is somewhat complex (Direct Sale News, 2009, p. 8). Commissions are charged on the volume of personal retail sales and on the volume of so-called party retail sales. For a specific distributor, group sales volume is defined as the combined amount of all personal sales plus all of the sales generated by any person in the distributors down line network. Each distributor's net commission rate on his or her down line's sales volume is the difference between the distributor's commission rate and the (lower) commission rate of his or her down line distributors. In 5 most MLMs, the commission rate rises as the total sales volume raises. For example, if the up-line distributor's group sales volume is at a level where it earns a 10% commission rate and each down line distributor has sold at a level that earns a 5% commission rate, each down line distributor receives this 5% of his/her volume. The up line distributor receives the 10% commission rate for his/her personal volume plus 5% of the group volume (10%-5%). Coughlin and Grayson (1998, pp. 402-3) provide a detailed illustration of how commissions are generated and then distributed to the members of a network.

In addition to fees, distributors earn revenue from their personal sales to customers outside the MLM network in the form of markups. Thus, the revenue of the distributor has three components: (1) personal sales commissions, including those arising from internal consumption; (2) company sales commissions, which span all lines; and (3) personal sales commissions to customers outside the network. Two significant perception challenges are faced by businesses engaged in multi-level marketing. First and foremost, there is the idea that multi-level marketing per se is illegal pyramiding. Second, whether illegal or not, multi-level marketing is, by its very nature, viewed as an immoral business practice.

1.3 MLM and pyramid schemes

Hyman (2008, p. 14) alleges that "basic economics and marketing reduces all MLM schemes to pyramid schemes." The only facts he cites to support his claim is the same anecdotes used by other MLM critics. Empirical study data are not given as support. A pyramid scheme is a fraudulent operation by which promoters of so called "investment" or "trading" schemes enrich themselves in a geometric progression through the payments made by recruits to such schemes (World Federation of Direct Selling Associations, 2011b, p.1). Individuals who have been recruited into an organization are compensated primarily for recruiting other individuals into the organization rather than for making legitimate retail sales of a product or service to so-called "end consumers". Such recruitment provides rewards to recruiters that are unrelated to the sale of the product or service to ultimate consumers (Vander Nat & Keep, 2002, p. 141). Other characteristics of a pyramid scheme include the requirement to pay a substantial fee for joining the organization, pressure on distributors to buy large amounts of inventory ("inventory loading"), and the absence of a policy regarding the buying back of unsold inventory, also known as buyback (Ho, 2004, p. 6). In the actual pyramid system, gains are produced by the geometric progression – by the progression of the network itself – and not (or at least much less than) by the rise in sales to customers outside the network, or even by sales reflecting internal consumption. Hypothetically, as the pyramid rises, it becomes more difficult for lower-level distributors to hire others and get their investment back (Chalançon, 2002, p. 2).

There is no one left to recruit at the extreme. Just a few benefit, while the rest lose. In fact, however, MLM companies usually restrict the number of levels in the company such that the hypothetical extreme is never reached. One direct selling company selling personal care goods,

for example, has six tiers in its down line method. Another direct selling business, one that sells dietary supplements, has four levels in its down-line method. Pyramid schemes are easily defined due to a lack of a tangible commodity. The so-called “products” to be sold have no real market value. This is because the products often are “gimmicks” such as certificates, training programs, magazine subscriptions, illusory discounts, or “miracle” treatments (World Federation of Direct Selling 6 Associations, 2011b, p.1). But, the simple fact is that, analogous to other retailers, legitimate MLM companies sell quality products and services to consumers. Conceptually, the “test” to see if the MLM organization is a pyramid scheme is actually very easy. According to Peterson and Albaum (2007), the standard “pyramid exam” to assess if the MLM organization is an illegitimate pyramid scheme is based on answers to four questions:

- What is being sold - a product/service or the right to sell a product/ service? This is the issue of “recruitment”.
- Is the fee for becoming a distributor fair and reasonable and what does a person receive for it from the company? This is the issue of “joining fee”.
- Is there pressure to buy excessive inventory? This is the “inventory loading” issue.
- Is there a provision for the MLM firm to buy back unsold inventory? This is the “buyback” issue.

There is no pyramid if a product/service is being sold, the fee for becoming a distributor is fair and reasonable, there is no inventory loading, and buyback is available (Albaum, 2008). What complicates matters are the hierarchical incentive schemes that MLM companies have, as mentioned above, to promote recruitment, entrepreneurship and sales. Berry (1997, p. 55), who suggests three characteristics for a direct sale Organization (DSO) that also relate to an MLM business, has proposed another way of looking at the potential consequences of such compensation systems:

Firstly, the DSO (and MLM) provides goods directly to participants who are personally drawn to the goods, consider them to be value-for-money and are keen to use the products themselves.

Second, the DSO (and MLM) rewards participants for expressing their excitement for the products with those who also plan to buy and use the products.

Third, and this is the main difference between NM (Network Marketing or MLM) and every other DSO, the NM (MLM) rewards each participant for moving through On their enthusiasm both for the products and the business concept by building and maintaining their own network of other participants each with their own retail customers. Other equally successful NM DSOs (MLMs) can best be described by substituting for the first two ingredients in the above description,

The following - A DSO (MLM) provides competitively priced products to participants together with a proven and easily replicable method of achieving retail sales. Thus, distributors not only deal for their own clients, but also sell new candidates to the MLM organization. The partnership between upline distributors who support or employ downline distributors and downline distributors may well be a key ingredient. In their study of sponsoring socialization engagement practices, Sparks and Schenk (2006, p. 176) concluded that sponsors who train more effectively, who transmit more information about the MLM to their recruits, and who communicate regularly produce more productive MLM distributors. At 7 the same time, however, the fact that distributors are independent contractors allows them to operate largely as they please. In an earlier study, Sparks and Schenk (2001) Examined key leadership relationships and found that the so-called transformational leadership of sponsors can be successful in getting more commitment, success and satisfaction from recruits. Transformational leaders are individuals that "transform" their followers through a particular action that encourages and motivates followers to step beyond their own self-interest for the benefit of the community (Bass, 1990, p. 53). Vander Nat and Keep (2002, p. 140) and Hyman (2008, p. 14), the MLM compensation system resembles certain pyramid schemes. This resemblance is superficial, however, since compensation is based only on retail sales made both inside and outside the MLM organization. A marketing system that forms a pyramid shape is not by itself an indication of an illegal distribution system (Stockstill, 1985, p. 55). If it was, the prototypical manufacturer-wholesaler-retailer distribution channel could be viewed as illegal as it tends to approximate a pyramid shape, similar in appearance to the shape of an MLM organization. Neither of these shapes is illegal per se

1.4 Misperceptions

To ensure a fair judgment on both marketing strategy, this paper will first state the misperceptions on the purpose of the strategies focused in this research.

- Direct Marketing According to www.yourarticlelibrary.com, direct marketing can be used for direct sales orders. For example, items may be shipped or sent directly to the consumer, much like Reader's Digest sends their customer's magazine subscriptions. It also helps the prospective customer to have appointments, depending on the time availability of both parties, to meet and first hand survey the items. "Direct response TV marketing offers consumers the ability to demonstrate product demos, even though they are costly" (www.yourarticlelibrary.com, 2013)
- Multi-Level Marketing

Indeed, according to the World Federation of Direct Selling Associations (WFDSA) website, MLM is considered to be a legal business. Amway and Avon are the few examples of many MLM businesses in the world today. The only concern of MLM is whether or not it has enriched the lives of those who have declared success or pulled several individuals along with the world's economic recession.

The first misperception of MLM is that it helps those who joined to get rich quick. First of all, a normal individual would be skeptical about these unrealistic schemes of promise. Promises of financial freedom, future providence and support is the main key to how distributors recruit newer members to add on to the chain and adds the amount in their paychecks. But with the consideration if the company or firm actually provide or produce and sell their goods or services, it will enable the distributors to earn extra income, and according to www.femalenetwork.com "It will help you earn extra income if you actually sell the products successfully and a little extra more if the people you've taken under your wing generate sales as well. If you have excellent sales and PR skills, you might be able to earn a lot more but selling is difficult, doubly so if the product is new to the market," (www.femalenetwork.com, 2010).

Second, the organization is typically of the opinion that MLM businesses are simple and straight to the stage. Perhaps a better way to see it is that it's easy to get involved, but to achieve success in the MLM market, you need to spend time, energy and money in it. In addition, excellent communication skills are a definite surplus. Many MLM companies have struggled because the

people who led them do not have the expertise they need. Worse still, they are not making an attempt to learn these skills and investments.

Finally, many people have this idea that they can only make money by either selling goods or services to their friends or family members, or by hiring them. "The point of selling to your friends and family is simply to help get you started in your business; however, you can never make the amount you want without reaching new people. After you have finished your warm market, you must learn to network and meet new people to share the opportunities you give" (Beisswenger, 2012)

1.5 Implications

- **Direct Marketing**

Due to the way direct marketing strategies and activities are carried out, this strategy tends to invade into people's data and information privacy. To be more precise, their targeted or current and existing customers using or will use their goods and services. Moreover, these direct marketers or to be more accurate, the strategies of direct marketing had also interfered into people's private timing and duties. According to O'Malley, Patterson and Evans's study (as cited in Jordaan, 2007), "The volume of direct mail, phone calls and e-mails that individuals receive relates to the physical intrusion of marketing communications into their daily lives". And again from Curran and Richards (as cited in Jordaan, 2007), "Many consumers complain about direct marketers' unsolicited telephone calls at dinnertime, the junk mail in their post boxes or the spam in their inbox." "In this regard, direct marketers must consider how consumers feel about gathering, using, preserving and disseminating their personal information "(Jordan, 2007).

- **Privacy and buying behavior**

Several researches had indicated that consumers changed their buying behavior willingly, due to privacy concerns. Such as online buying which later on requires the consumer to register as a new member and they are required to fill in extremely personal details such as credit card number, bank account information and passwords. To safeguard themselves from unwanted risks in the future, consumers then prefer to buy things from legitimate physical stores. As studied by Cyber Dialogue in 2001 (as cited in Jordaan, 2007), "27% of Internet users stated

that they had abandoned an order online because of privacy concerns, while 21% had switched from online buying to placing an order offline.

“As mentioned by Y. Jordan in his journal article, "Findings from a study by Harris Interactive concluded that consumers are willing to change their behavior if they feel an organization has established strong and trustworthy privacy practices. A total of 83% said they would stop doing business entirely with an organization if they heard or read that an organization was using its customers' information in a way they considered to be improper and misused," (Harris Interactive as cited in 9 Jordaan, 2007). This shows that consumers can change their purchasing or buying behavior on the basis of their level of trust in that company, regardless of whether it is online or offline, and only if they obey universal privacy policies. The privacy policies are;

- To remove personal information of customers such as names and addresses from direct marketing databases.
- Customers may refuse and disallow the permission to sell loan or transfer personal information to another firm company or organization.
- Procedures of information handling must be with customer's consent.
- Customers may refuse to provide information considered irrelevant or too personal.
- Customers are free to decline a buying opportunity such as promotions, if they are unsure.
- Customers are allowed to request access to their own information in the company's databases which are using the direct marketing strategy.

Both consumer and companies and their representatives must understand the privacy policies to ensure a safe and trusting bond between customer and the distributor. This is because many customers allow prying eyes to hover over their personal information too willingly, because they were too distracted by promises of receiving a fast return on their income. "For most people, the benefits gained by providing such potentially invasive information far outweigh any of their concerns. Some organizations, however, do not intelligently organize and use the information they collect, much less deliver value to consumers in return for it," (Jordaan, 2007).

- **Victims of Privacy Intruders in Direct Shopping Behavior**

Human psyche appears to be suspicious of such objects and actions by assessing the environment and comparing them to their personal experiences. It is understood in this paper that

every individual has different levels of concern for privacy based on personal experience. When customers have had several prior negative experiences with data inaccuracies they are more hesitant to provide subsequent information and their privacy issues are likely to increase (Vidmar & Flaherty, 1985:100; Campbell, 1997:46 as cited in Jordaan, 2007).

In Y. Jordaan's newspaper article, he said, "These encounters weaken customer trust not just in the individual direct marketer concerned but in all direct marketing organizations. In this report, a total of 31 per cent of respondents suggested that they had been the target of a situation they thought was an infringement of their private information.

- **Multi-Level Marketing**

Multi-Level Marketing has been an extensive approach unit for decades. This has caused people or individuals living in their money-making phase to prosper in riches, collected from distributors or starving to death in their own regrets of ever following this impractical scheme of success. In 10 accordance with John M. Taylor (2000), in his journal article on When Should MLM or Network Marketing Program Be Considered an Illegal Pyramid Scheme, he states that MLM, "have become an insidious, pervasive and corrupting influence in the marketplace and community, causing financial and social harm on a global scale...involving tens of millions of consumers." This is because MLM stands in between the line of legal and illegal forms of network marketing and of those illegal fraudulent pyramid schemes, causing cases of "controversy, confusion and inquiry in many countries," (Taylor, 2000). Implication on the lives of consumers will be explained thoroughly

- **Lives of Consumers**

Human beings are primitively drawn to subjects or objects in life that provide comfort and riches in our lives. Much as cavemen are drawn to a whole pile of food for survival, people today are drawn to these MLM pyramid schemes. This is because MLM disguises itself as a "small corporation" by applying the rules of "essential principles such as independence, initiative, entrepreneurship and personal freedom" (Taylor, 2000). People striving to make ends meet are attracted to deals and promises of financial freedom once and for all. And because of this, John M. Taylor describes the resultant force of this attraction is that, "can be induced to spend all their

earnings, lose or quit their existing jobs, neglect their families and other relationships and take on great debt in the pursuit of the elusive "dream" they have been deceptively sold"

According to bountiful researches done by marketing experts, the most prominent and subjective argument is by www.mlm-thetruth.com on their research on The Truth For and Against MLM, they concluded that schemes like MLM causes great harm psychologically, physically and financially to most people and it steals the largest amount of money from existing firms and companies. In this it causes a higher level of leakage in the marketing industries, hence, fueling the economic fall of the country. Due to MLM's masquerading act of "sales and distribution businesses," (Taylor, 2000), they "unfairly compete with other legitimate business in the marketing circle," (Krige, 2012).

This affects not only the individual directly but also socially. MLM focuses on the recruiting of new distributors because of the recruiting chain; people are motivated to defraud their own family members and colleagues or even acquaintances. John M. Taylor describes it as causing more social harm than financial damage. Furthermore, MLM is never similar to a five-to-nine daily job. They operate as private networks where they stand outside of daily or mainstream businesses. Even social life towards MLM is different. This is because MLM businesses are based on Pyramid schemes; hence they possess hierarchical mentality as they expand. The meaning of this is because there are up-lines and a constant stream or chain of new down line members. Not to forget John M. Taylor's referral to "charismatic leaders" to encourage and prolong the loyalty of the existing sales distributors to continue the process of recruitment. If it is related again to the personal life of consumers of the sales distributors, it is seen that they can never establish a long run trust towards anyone they meet because all their communicate will normally be on or about recruitment and unrealistic promises.

"Consequently, MLM pyramid schemes can gain the power of a cult over people's lives" (Taylor, 2000).

1.6 Pullback and Benefits

When comparing the direct marketing strategies to multi-level marketing strategies, differences as stated above in this paper can be seen. But this paper serves as a platform where the

advantages and disadvantages of both strategies are placed accordingly to ensure the neutrality of this paper.

Direct Marketing Direct marketing is regarded as a way to ensure the maximization of revenues and to increase gain, there are advantages and disadvantages. In the first place, this paper would divide the benefits of direct marketing into two categories: first, the relationship between the firm and the customer and secondly, the relationship between firms and other firms within or within the business itself.

According to www.yourarticlelibrary.com, (2011), the advantage of direct marketing from the relationship of firms towards consumers, is having greater accuracy in targeting potential consumers. Moreover, the timing of how and when messages or information about the goods and services offered, are all controlled by the firm or companies themselves, For example, firms and companies release their information about the goods or services offered during a peak season or holiday to maximize the impact on the targeted audience. Lastly, direct marketing provides more opportunities for the consumers to present their feedback, hence, improving subsequent marketing strategies or future plans. As the firms and companies were able to reach to the customers directly and inject their information or messages to these specific groups, the targeted customer could also directly respond to the source.

Secondly, in the partnership between firms or companies are just within other firms or companies, there are often advantages in the conduct of direct marketing. The rivals of that particular organization or business would be less aware of the marketing techniques used and of their other profit maximization activities. Next, the company can easily predict their outcomes or profits that would be earned within a period of time, because they are already targeting a specific group or age group of people. This would enable them to calculate and estimate their sales annually or bi-annually. Lastly, firms and companies can become a more effective and powerful communication medium to market their goods and services, as their messages would be more personalized, suggesting a liking to more relevant information towards their customers. It means people would have more amount of trust towards information or having the tendency to relate to the customer's life experiences towards the products.

This personalized marketing could make sure that the firm or company is not competing simultaneously with other similar advertising messages. As this paper seeks the existence of neutrality in the contrast between the Pullbacks and the benefits, the disadvantages of direct marketing will also be mentioned. The most common pullback in direct marketing will be the common public skepticism in direct marketing communications. It will usually be regarded by the public as spam or junk mail. It will then be deleted as it does not benefit the interests of those particular individuals. That is why it is a common tactic for direct marketing marketers to target a particular audience according to their 12 preferences and needs. Secondly, it is the general perception of human psychology that is to be blamed. The general perception about direct marketing or telemarketing is rather negative and dangerous . Lastly, the initial costs to advertise are much more expensive for direct marketing strategies, but it is the most cost effective. The advertising costs rate is higher than general consumer media advertisements because their messages are sent to targeted consumers directly, enabling them to ensure that their promotions goes only to people whom are most likely to be interested in the content of the messages, offering the goods and services. Then later on, one must also understand that direct marketing sells these opportunities directly to the customers in the comfort of their own home but in reverse, the customers will telephone directly to the company and firms to state their responses towards the messages they received. As stated in www.yourlibrary.com, "When direct channels are used, the messages have minimal competition for the consumer's attention from other advertising, the timing can be very precisely controlled, and competitors will be less aware of the campaign. Arguably, however, the most critical analysis of media performance is the amount of response it generates," (Johnson, 2013).

- **Multi-Level Marketing**

As explained above, multi-level marketing is a strategy used by sales distributors to earn money by recruiting new sales distributors and earn a small profit from the new distributor's earnings. There are benefits to this and Pullback. The benefits of multi-level marketing must be understood from two perspectives which are the perspectives of starters and from the perspectives of high level executive members of the MLM strategy Firstly, from the perspectives of higher level officers or executive members, the advantages or benefits would be that high level officers are able to earn a passive salary and is able to continue their daily jobs smoothly.

The main purpose of multi-level marketing strategy is to make sure there is a continuous recruitment of new members as a portion of their sales would be given to these high level officers in the multi-level marketing chain. "Inordinate emphasis on recruiting will follow, and only a few at the top of the pyramid will profit at the expense of the investments in product buying by those in their down line— most of whom lose money. Furthermore, this will enable every potential or new business owners to become their own boss and manage things according to their own comfort, be it at home or anywhere else. This management tasks will also include selecting which and what goods or services to promote to the targeted consumers.

From the perspectives of starters in using the MLM strategy, the advantages includes reaching out and expanding their personal and professional business contacts, expanding their business with no constrains of race, nationality and beliefs. Secondly, once they have earned a sufficient size of the down line management in the multilevel marketing chain, their work is easier and they will yet receive a higher income. Lastly, the benefits of using this marketing strategy is that not much costs are needed to start businesses and more importantly, not much cost have to be budgeted aside to train the newly recruited members, as most things can be easily trained by those who recruited them. This makes it easy to expand their businesses and expect an easy return of income towards themselves and the company or firm. (Curtis, 2011)

Third, goods and services marketed through a multi-level marketing approach are typically costly and out of the budget, middle-income earners who make up a significant proportion of the country's population. Consequently, because of the price, they would be less interested in the goods or services provided by companies and distributors. It decreases the amount of income earned. This is further confirmed by John M. Taylor (2000), who claimed that "in actual company payouts, because MLM rates are typically too high for non-distributor retail markups, such initiatives lead to inflated and unrealistic commitments and eventual market saturation" (Taylor, 2000).

In conclusion, it was clear from this paper that the advantages of both direct marketing and multi-level marketing comfortably outweigh the long-term downside. However, in order to weigh the result, business owners must also note that, in order for their firm or organization to expand utilizing both approaches, enormous communication skills are needed during the expansion process.

1.7 Discussion

This paper clarified, along with myths, long-term declines, benefits, implication, misperception and their consequences, Direct Marketing and Multi-Level Marketing. Direct marketing was clarified at the beginning of this paper as a method in which small advertising budget businesses might prefer to adopt it, as it is often cost-effective. The cost-effective word is used because it offers a better targeting accuracy for prospective clients, enabling the firm or business to prepare ahead. However, due to the inappropriate way in which businesses or firms treat consumer personal information databases, some abuse them; many informed consumers tend to change their buying conduct, particularly online, when the payment process involves private information on the individual. To the consumers, this is one risk not to take. "There is also evidence to suggest that, even though consumers are concerned about their privacy, they do not necessarily change anything about their behavior to address the concern. Some individuals consider privacy as legal rights, and many people are concerned about their privacy in an abstract sense" (Jordaan, 2007). The results from Y. Jordaan's study was that the ability to gather and use personal information does not necessarily imply direct marketers are successful in establishing meaningful relationships with consumers. The reason he stated this was because individuals desire a strong relationship of trust to actually initiate the buying process. This is why it sometimes disturbs the consciousness of many distributors in both Direct Marketing and Multi-Level Marketing strategies, because of their tendency to manipulate others and only speak about their money earning tactics. Hence leading to very less buildup of close and strong bonds of relationship, is it formal, informal, intimate or professional. "MLM typically has a hierarchy of multiple levels of sales agents consisting of a single or a group of sales agents at the top with subsequent levels of agents beneath them. The agents earn their multi-level commissions from direct product sales and from the sales generated by the agents beneath them in the hierarchical structure" (Curtis, 2011).

This is Curtis' comment on the legalization of MLM and its procedures across Nations. At the beginning of this article, MLM was clarified as a topic so contentious to various people and nationality. In Oman, it is generally appropriate as it is considered legitimate, while in the United States, the legibility of MLM is still being challenged, in particular, with any case of scams and fraud involving MLM being filed with FTC. But Oman is controlling the law of the MLM sector. According to Curtis yet again, "The real profit is earned, not by the sale of the product, but by the sale of distributorships. A few at the top of the pyramid benefit as the commission earned dwindles steeply down the pyramid. Eventually, as the supply of potential investors is exhausted and individuals at the bottom of the pyramid are unable to recruit any

followers themselves, the pyramid collapses. As pyramid schemes are a form of fraud in most countries, the legitimacy of MLM is also called into question". "In South Africa, multi-level marketing (MLM) business models are legal as long as tangible goods or services are 'sold' through their tiered (pyramid-like) network of independent distributors (or 'agents') whose task it is to promote and distribute these goods or services" (Krige, 2012). Detlev Krige states that this scenario is also taking place in South Africa as these MLM companies focus more on recruitment plans where they enforce a zero. In my opinion, both Direct Marketing and Multi-Level Marketing have pros and cons, but the issue or the problem is not whether or not goods, services and products are offered. This is because they are just objects used to create the right communication medium to get another message. The issue is the effects of Direct Marketing and Multi-Level Marketing strategies towards the lives of distributors, consumers, leaders and bosses alike. It can affect individuals personally or socially.

1.8 Conclusion

Direct Marketing is proven to be the most cost effective measure to spread information or messages about a certain goods or services or promotions directly into a circle of targeted audience which are potential customers of firms or companies with low advertising budgets. According to www.yourarticleslibrary.com, "With direct marketing, however, competing media may be more specifically measured for their efficacy by calculating the exact amount of response that they stimulate. Here, the calculation is not the cost of reaching 1,000 members of the audience, but the cost of having only one of them to react in the manner desired (e.g. by asking for information or buying).

(www.yourarticleslibrary.com, 2011). Due to the fear of abuse of personal information by fraudulent companies using the Direct Marketing tactics, it has become very hard for informed consumers to take risks of buying items, particularly after weighing the costs of the risks over the stuff they buy, even if the item was inexpensive.

According to Y. "The ability to collect and use personal information does not inherently mean that direct marketers are effective in creating substantive relationships with customers. Direct marketers should pay attention to a variety of privacy concerns if they want to promote

inter-relational exchanges between themselves and customers. They must show commitment to information privacy at a corporate level and develop privacy policies that contain fair information practices" (Jordaan, 2007).

MLM on the other hand is still on the controversial verge of whether or not it is illegal due to the long cases of pyramid schemes and wrong motivation. This controversy rise due to the effects of MLM strategies as decades passed since the first establishment of this system. But many have escaped trials of economic justice, "using legitimate products to escape the definition of an illegal pyramid scheme, the major MLM companies have become far more pervasive and powerful in their effects than any illegal pyramid scheme ever was" (Curtis, 2011). The controversy is also caused by the extensive focus MLM distributors have on the recruitment process to earn money. Plus, the products sold by these MLM companies are mostly overpriced and mostly none of the MLM leaders would do anything about the price to suit the customer's buying power, because they do not focus on the retailing process! "Media reports on pyramid schemes and fraudulent investment schemes make much of the normative dimension of wealth and poverty, evaluating production, consumption and exchange in moral terms," (Parry & Bloch, 1989; as cited in Taylor, 2000). Hence, it is better to allow society to decide, but it is the duty of those who know how to inform customers and potential consumers about the specifics of Direct Marketing and Multi-Level Marketing. Perhaps the country's leaders have always preferred to avoid the fights and decide on the legalization of both Direct Marketing and Multi-Level Marketing. However, focus must be put on MLM, as the effect of their disadvantages on society and the middle-income earner group is largely and dangerously high.

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