

MLM: Opportunities Abound

By Jeffrey A. Babener
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Has a friend approached you to sign up for a network marketing opportunity with Amway, Shaklee, Mary Kay or one of the hundreds of similar companies? Are you wondering what you're getting into?

Network marketing is a business opportunity that goes by many names—multilevel marketing (MLM), direct selling, person-to-person marketing or one-on-one marketing. They all describe a business opportunity that involves millions of Americans and billions of dollars in sales.

Is it an opportunity for you? It may be—if you are willing to keep your eyes wide open, roll up your sleeves for some hard work, and risk some of your time and money to become an entrepreneur.

WHAT IS NETWORK MARKETING?

Network marketing is just one of the many business channels for distributing goods and services. It is part of the direct selling industry, which is rich with familiar names such as Avon, Mary Kay, Fuller Brush and Tupperware. These companies market goods and services through networks of thousands of independent distributors.

Historically, direct selling companies sold goods to distributors for resale or paid them a commission when they sold products to consumers. Clas-

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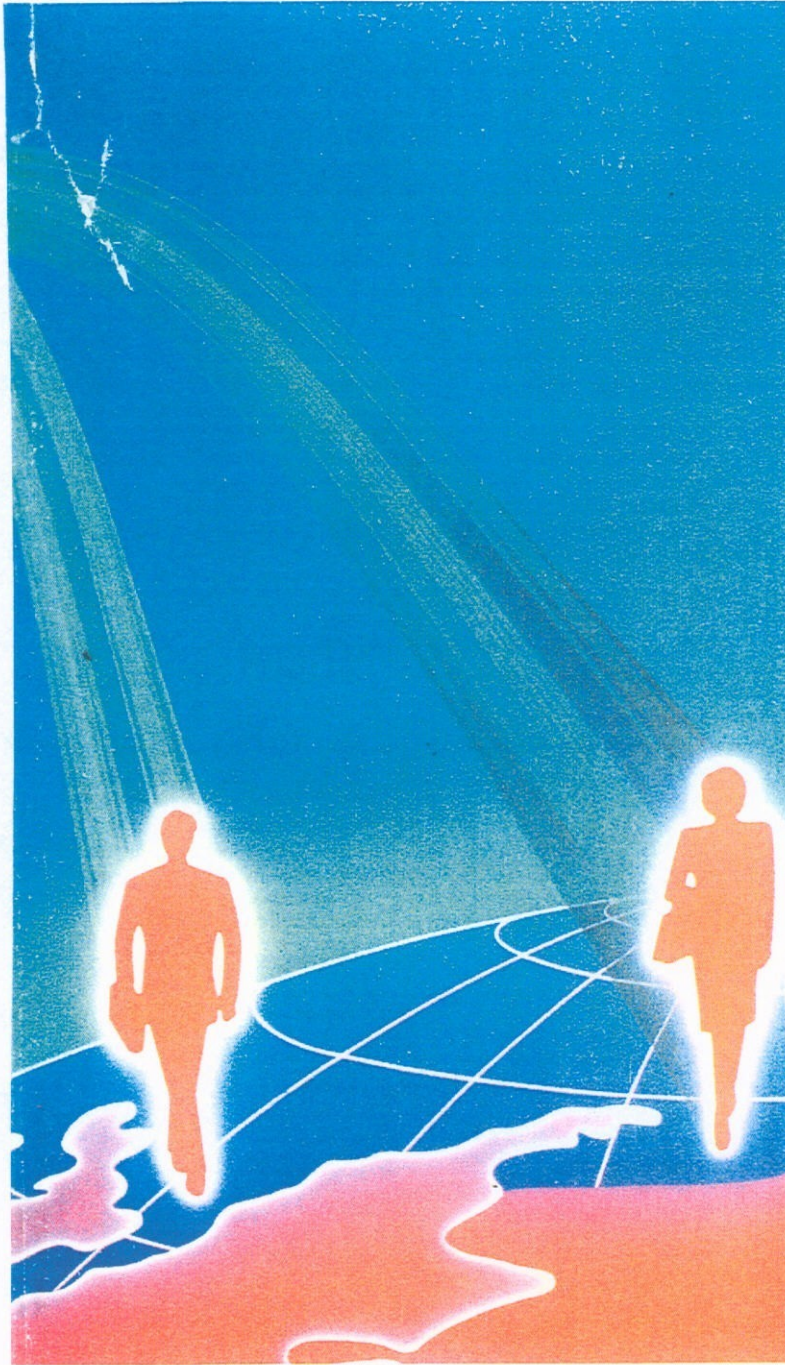
Why do direct sellers get into the business? The top five reasons people join network marketing companies are:

1. I like and believe in the product (90 percent).
2. I like being my own boss (73 percent).
3. I like working at home (64 percent).
4. The harder I work, the more I make (54 percent).
5. I enjoy selling (49 percent).

Source: Direct Selling Association



sic among such companies are encyclopedias and other door-to-door sales companies. The past three decades, however, have seen the evolution of a new type of direct selling company—



**Looking for the perfect business?
MLM can give you a shot at the
American dream.**

those distributors—their “downline” sales organization.

Suppose Distributor A recruits Distributor B. Distributor B recruits Distributor C, and Distributor C recruits Distributor D. In a multilevel marketing company, Distributor A receives a commission on sales made by Distributors B, C and D. (Distributor A receives commissions at multiple levels in the organization; therefore, the company is referred to as a multilevel marketing company.) Today, most direct selling companies are structured this way.

THE TYPICAL DISTRIBUTOR

Although the network marketing industry isn't populated by huge companies like General Motors or IBM, it is nevertheless a significant industry in the United States and the world. In America alone, there are more than 5 million distributors and salespeople. These distributors are a diverse group since MLM opportunities exist for people of all races, ages and sexes.

Statistics from the Direct Selling Association show that blacks account for about 12.5 percent of direct marketers, Latinos nearly 5 percent, Asians 1 percent and native Americans about 0.5 percent.

This industry also provides opportunities for two other important groups: Approximately 4.5 percent of direct sellers are senior citizens (over age 65) and about 8 percent have physical disabilities.

Women make up the majority of the direct selling industry, at a ratio of 82 percent female to 18 percent male distributors. These numbers probably reflect the demographics of long-dominant companies like Avon and Mary Kay; recent growth in the industry has been among newer companies whose distributor ratios are more evenly divided between men and women.

WHAT THEY SELL

Any consumer product or service is fair game for network marketing companies. In the past, the industry was dominated by cosmetics, nutritional, personal-care and home-cleaning products. Not anymore. In recent years, it has become evident that anything and

the network marketing or MLM company.

In the old direct selling companies, distributors made money only through their direct sales. In the new

network marketing companies, distributors make money not only by selling goods and services but also by recruiting other salespeople and receiving commissions or bonuses on the sales of

Photo © The Stock Market/Anastasia Sano

everything can be sold by network marketers, including services. Today, discount buying services are popular, teachers and parents are experiencing great success marketing educational toys, and home and personal security products are booming as well.

If a product benefits from demonstration, explanation or personal testimonial, then it is an excellent candidate for network marketing. Network marketers share their excitement about products with their families, social organizations and co-workers. Sales are often made from one friend to another, and credibility is very important.

WHY IS IT HOT?

Many factors combine to make network marketing appealing to today's would-be entrepreneurs. For one thing, there is virtually no investment: Most companies require only the purchase of a modestly priced sales kit (\$25 to \$100) to start. Because it can easily be run part time, a network marketing business gives full-time employees the chance to be entrepreneurs. And as an ideal homebased business, network marketing attracts many who want to make extra income and still spend time with their families.

The downside is the unpleasant image network marketing has long had in the eyes of the press, regulatory agencies and the public. Some of these image problems are unfair, but some were rightfully earned by the abuses of industry scam artists. Because the cost of entry into network marketing is so low, this business can bring out the worst in people.

The biggest problem has been hucksters who talk people into making large investments or buying garageloads of inventory and then disappear into the night. Pie-in-the-sky earnings claims have been a continuing problem, too. Another is people being tricked into attending meetings, only to be pitched a business opportunity.

Beware the peddlers of get-rich-quick programs or something-for-nothing schemes. Network marketing is no different from any other endeavor: Rewards come with persistence and hard work. If you are urged to buy lots of inventory right away or promised you'll earn fantastic amounts of money after only weeks in business, get out.

WHAT TO LOOK FOR

Assuming you have found a product or service you believe in, how do you know which network marketing company is the right one for you—from a business and legal standpoint? Some guidelines:

1. *Product and price:* Look for a

company offering a high-quality product. It should be fairly priced and backed by a guarantee. Distributors should buy the product enthusiastically on its own merits, not just because they are part of the program.

2. *Investment requirement:* There should be no investment required, except for the purchase of a sales kit or demonstration materials sold at company cost.

3. *Purchase and inventory requirements:* You should not have to fulfill a "minimum purchase requirement" or "inventory requirement" simply to become a distributor. Beware of companies that emphasize buying large amounts of inventory. Once you are a distributor, however, there may be minimum activity requirements to stay in the network marketing program.

4. *Sales commissions:* Sales commissions should be paid only on products or services sold to end consumers, not for the mere act of sponsoring or recruiting others.

5. *Buyback policy:* The company should buy back resalable inventory and sales kits from distributors who want to leave the program.

6. *Retail sales:* The company should emphasize retail sales to end consumers—people not participating in the distribution program.

7. *Distributor activity:* Distributors must participate actively in managing their downline networks.

8. *Earnings representations:* The company's literature and training materials should never make claims about specific income potential; however, they can demonstrate verifiable income brackets for common levels of achievement in the program.

DOING YOUR PART

After you find a good product and company, take a hard look at yourself. Here's what you need to do to succeed:

1. *Meet people.* This is a people business. To be successful, you have to get out and meet them. It's the only way you'll make sales and get recruits. If you are not a people person, this business isn't for you.

2. *Believe in your product or service.* If you don't use the product and don't honestly believe you are doing a service for others, it will adversely affect your sales. The number-one consideration in choosing a company is picking a product you like.

3. *Be patient.* Like every other business activity, network marketing takes time. If you're confident you've found a good company, give it a year.

4. *Attend company training programs.* Most companies teach you to sell and recruit. Those training sessions are the key to success.

5. *Work with your sponsor, and work with those you sponsor.* A network marketing organization is like a family. When everyone in your family succeeds, you do, too.

6. *Think positive.* You are going to see a lot of motivational speakers and materials in this business, as in any sales business. Some of it is useless, but much of it helps you get in the right frame of mind. Remember, though, that things don't always go smoothly; there will be hard work and rejection. If it takes 10 prospects to make one sale, you must endure nine rejections.

7. *Get organized.* Be methodical about sales calls and recruitment. Use a daily planner to schedule your time; use your home computer to track customers and recruits. Set aside a place in your home. Remember, this is a business, not a hobby.

8. *Don't become a multilevel junkie.* Bouncing from one network marketing program to another is a prescription for failure. While many successful distributors promote two or three products at a time, the most successful are those who focus on one company.

You undoubtedly have a lot of demands on your time and money. Should you give network marketing a try? If you can spare a little time, a little money, and a lot of enthusiasm, it's definitely worth the effort. ■

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BIOGRAPHICAL INFORMATION

Jeffrey A. Babener is the principal attorney in the law firm of Babener & Associates, Bank of America Financial Center, 121 S.W. Morrison Street, Suite 1020, Portland, Oregon 97204-3140, (503) 226-6600. Mr. Babener is a graduate of the University of Southern California Law School and a member of both the California and Oregon State Bars. Mr. Babener was a member of the editorial board of the University of Southern California Law Review and has served on various state and American Bar Association committees, including chairmanship of the Oregon State Bar Committee on Judicial Administration. His legal practice includes representation of many of the major companies in the direct selling industry. Sales by companies he represents exceed \$2 billion, involving over one million distributors. His law firm represents companies headquartered throughout the United States and abroad. He has represented many members of the Washington, D.C. based Direct Selling Association where he serves on the Lawyer's Council and Government Relations Committee and he is corporate counsel for the industry's other trade association, the Multi-Level Marketing International Association of Irvine, California. Mr. Babener has lectured and published extensively on multilevel marketing law. He has been interviewed on the industry in such publications as *Money, Inc.*, *Atlantic Monthly*, *Success*, *Entrepreneur*, *Kiplinger's Personal Finance*, *Home Office Computer* and *Business Start-Ups*. He is editor of the industry publication, *Direct Sales Legaline*. Mr. Babener is also the author of the books, *Tax Guide for MLM/Direct Selling Distributors*, *Network Marketer's Guide to Success*, *The MLM Corporate Handbook* and *Network Marketing: Window of Opportunity*. He is Chairman of the MLM Entrepreneur Conference Series, a nationwide series of conferences on trends in the MLM industry.