

# Multi Level Marketing

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## ABSTRACT

Multilevel Marketing is a very popular business model in the Western countries. It is a kind of hybrid of the method of distribution of goods and the method of building a sales network. It is one of the safest (Carries a very low risk) ways of conducting a business activity. The knowledge about functioning of this Business model, both among theoreticians (scanty literature on the subject) and practitioners, is still insufficient in Poland. Thus, the presented paper has been prepared as — in the Authors' opinion — it, at least infinitesimally, bridges the gap in the recognition of Multi Level Marketing issues. The aim of the study was, first of all, to describe Multi Level Marketing, to indicate practical benefits of this business model as well as to present basic systems of calculating a commission, which are used in marketing plans of companies. The discussion was based on the study of literature and the knowledge gained in the course of free-form interviews with the leaders of the sector.

**Keywords**— multi level marketing, Uni-Level system, binary system, matrix system.

## 1. INTRODUCTION

Multi Level Marketing also known as Network Marketing, Matrix Marketing or Chain Marketing. It is a business-distribution model that allows a company to market its products directly to consumers by means of relationship referrals and direct selling. MLM is a way of selling goods or services through distributors. Multi Level Marketing (MLM) is an important component of the direct selling industry. Multilevel marketing plans usually promise to pay commissions through two or more levels of recruits, known as the distributors "down line." Independent, unsalaried salespeople of multi-level marketing, referred to as distributors, represent the parent company and are awarded a commission based upon the volume of product sold through each of their independent businesses. 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. Commissions are paid to multi-level marketing distributors according to the company's compensation plan.

## 2. MLM PLANS

### 2.1 Binary Plan

In Binary plan, each member can sponsor two direct members immediately under him. But if he wants more ids to sponsor, then those ids are placed in his network as „Spills”, which get attached to other members called as „Adjusted to”. Spill can only possible in extreme left & extreme right. Ex – Any member can sponsor only two members.

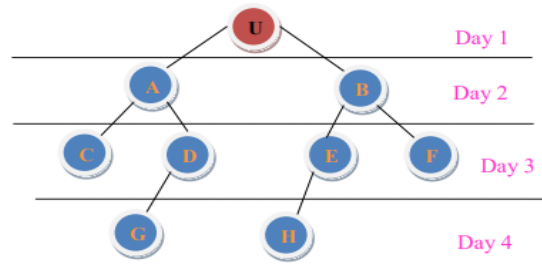


**Figure 1.** Binary Plan.

### 2.2 Daily Binary Plan

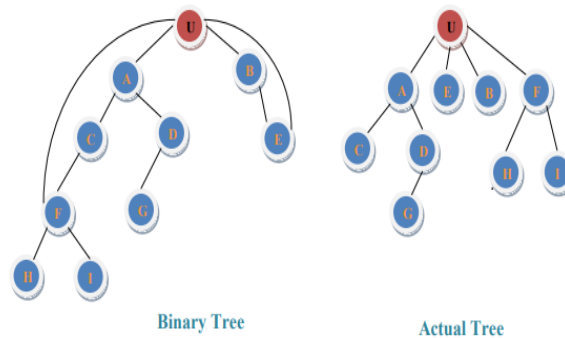
In Daily Binary Plan, payout calculation is done daily. It has auto generated scheduler. Here, commission is calculated daily, but all the deduction will be done at time of cheque processing. Company can provide the different condition. But, on each day, no. of pairs is constant. Each member should make those no. of pairs to get the commission. If any member fails to make those no. of pairs, then those no. of joining count will be flushed out daily. Though member makes more than 1 set, then also member will get only commission on fixed no. of pairs.

**-: Example On Daily Binary Pain:-**



**Figure 2. Level Binary Plan.**

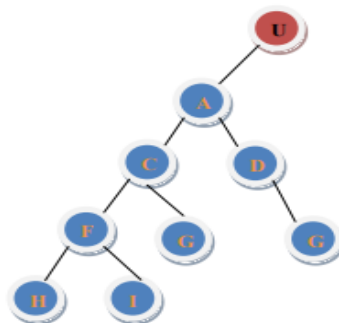
- Commission is calculated per Joining and per level.
- If a spill is created in binary tree, then for level commission calculation, it is converted to actual tree and then commission is calculated per Joining.
- Ex- Here, commission is calculated by arranging all the members according to their sponsors, which is represented by Actual Tree. Then, the commission will be calculated per Joining and per level.



**Figure 3. Binary Tree and Actual Tree.**

### 2.3 Single Level

- Single Level commission given Joining, though it has only one leg on one side.
- When he will create another leg, then he will get only binary commission.
- Ex- in following figure, U and C will get only leg commission and all others i.e. A, B and D will get only binary commission.

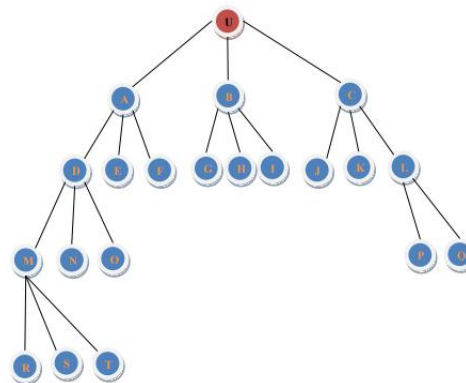


**Figure 4. Single level.**

#### 2.4 Matrix Binary and Auto-matrix

- A matrix plan is the one in which the tree grows in „n X n“ structure only. A Binary plan is an example of 2X2 matrix. The structure of Binary Matrix plan is of 1-2-4-8 and so on.
- Other example of Matrix plan is of 3X3 matrix. The structure of this plan is of 1-3-9-27 and so on. These two types of matrix are most commonly used. The user can also use 4X4 matrix but it would create a lot of complication and time consuming.
- In Simple Matrix Plan, the members are placed randomly based on the Sponsor id and its downline. The user is not allowed to select the position. He can only select the sponsor. In this plan, the member will get commission on level basis. In this, the payout period is there and after certain no. of levels is completed, the members earning is stopped.
- If matrix binary is of 2X2, then it is called as “Level Binary” or regular binary.

Consider 3X3 matrix plan:

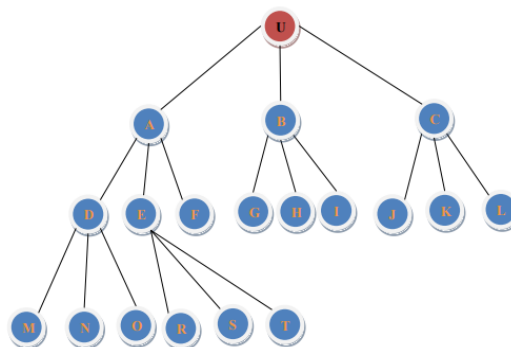


**Figure 5. Matrix Plan.**

Here commission is calculated level wise and per Joining wise

#### 2.5 Auto-matrix

The only difference in the matrix and auto matrix is that, in auto matrix, member is even not allowed to select the sponsor. In this, the members are placed sequentially by searching the next vacant place in the structure from top to bottom, left to right. In this plan there is uniform growth of the tree.



**Figure 6. Auto Matrix.**

Auto-matrix is modified matrix in which position filling is sequential and so no need of sponsor ID to join. Auto-matrix Re-Entry possible, one sponsor again joining in a tree. So he get commission for that also. The commission for a member can last until a specific level is reached. Rest all the calculations will be same.

Total commission = No. of joining \* amount per ID.

### 3. PLAN

#### 3.1 Growth Plan

In this type of plan, the Growth of the Company determines the Growth/ Commission of the Member i.e. number of joining members in a company per cycle. Growth of the company is a determined by the percentage of target achieved by the company. Whenever a company or organization goes for this plan it decides the target that is to be achieved in each cycle. If the organization fails to achieve the target then the percentage of achievement of the target is calculated and the same percentage of amount is distributed to each member.

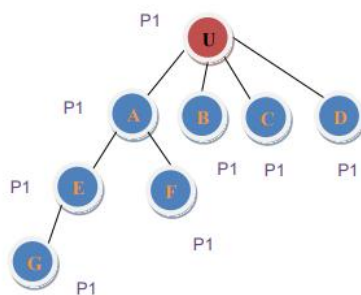
Depending upon the joining of the new members in the next cycle, the members joined in the current cycle would get the commission based on the rate of growth. It is based on the growth of the company, i.e. number of joining members in a company per cycle. It can be binary or generation plan. Cycle (payout) will be calculated for any period. Target of no. of joining will be defined per cycle. Cycle calculation will be daily/weekly/fortnightly/monthly. In this plan, there are 12 cycles. There are 2 types of incomes: a) Direct growth/Own growth income. b) Referral Growth income.

a) Direct Growth Income: When member will get join in a company, it will get direct growth income for 12 cycles.

b) Referral Growth Income: Member will get income for 12 cycles on members referred by it. If member refers 2 direct members, then it will get 12 cycles income on first direct and 12 cycles income on second direct.

#### 3.2 Generation Plan

In Generation plan, Member can sponsor n no. of directs. The growth in it is left-to-right & top-to-bottom. Only sponsor-id is to be mentioned for the member while joining. Commission is calculated on the basis of no. of BV or PV according to the company's plan. Ex – In following figure, U,A, B, C, D are directs of U and E and F are directs of A. G is direct of E.



**Figure 7. Generation Plan.**

#### 3.3 Board Plan

Board Plan is one of the plan in MLM. It is a box type structure, but there is a limitation in levels, after that board will split & two new boards created. In board, members are placed in FIFO (First Input and First Output) basis.

**Board:** Board means it's a box type entry. It may be of 1-2-4, 1-2-4-8, 1-2-4-8-16.



**Figure 8. Board.**

For the Board Plan we have following things: No. Of Boards: There are three types of Boards:

1. **Feeder Board:** This is the first board. When member joins the company he will get entry in Feeder Board.
2. **Main Board:** After Feeder Board next board is Main Board. When member of Feeder Board satisfies certain condition then he will get entry in Main Board.
3. **Reentry Board:** Most of company's only have Feeder and Main Board. Some of company's also have one more board which is Reentry Board. When Member of the Main Board satisfies certain condition then member will get entry in Reentry board. If Reentry Board is not available then member will get entry in another Main Board where Sponsor of the member resides or in the same Main Board positioning from left to right.

**No. of Levels:** All the board plans have certain structure which can be 1-2-4, 1-2-4-8, 1-2-4-8-16. For 1-2-4 structure there are total 3 levels. On first level it has only one member. On second level it has two members and for third level it has four members.

**Board Position:** Board Plan follows Top to Bottom and Left to Right Approach for deciding position of members. For Feeder Board following conditions can be applied:

1. New member follows Adjusted to member.
2. New member follows his downline network.
3. New member follows his up line network.

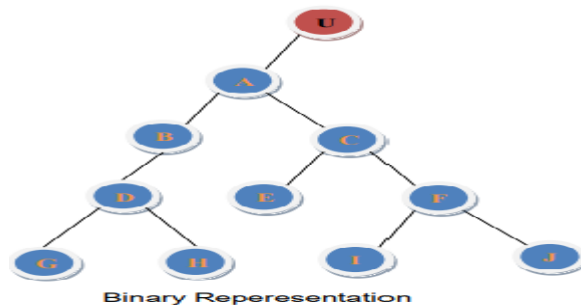
For Main Board following conditions can be applied:

1. New member follows his Sponsor.
2. New member follows his up line network.

**Shuffling:** As per the plan member's position get shuffled before splitting. For shuffling, condition may be that member who has 2 directs will get position before other members in the board.

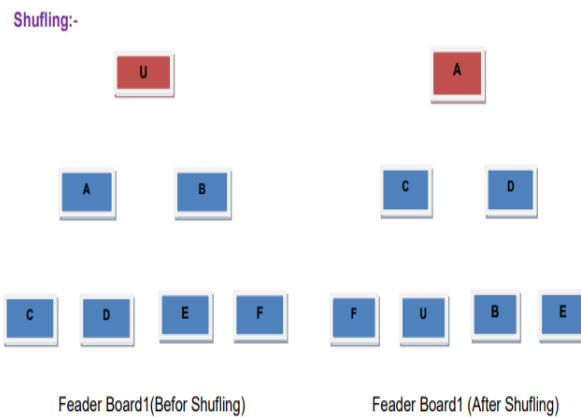
**Splitting:** Board will split at that very moment when all the boxes get filled. At no point of time a board will remain without splitting, if all the positions are filled.

**Commission:** In Board Plan member will get commission when he moves from Feeder Board to Main Board and from Main Board to Reentry Board according to company plan. In some cases board member will get commission for new entries in the board



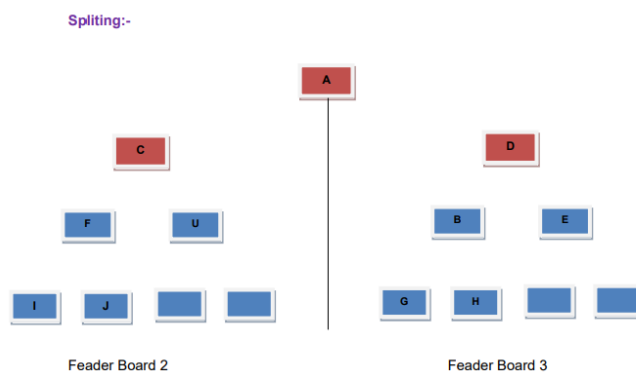
**Figure 9.** Binary Representation.

Members will get entries in the Feeder Board as follows:



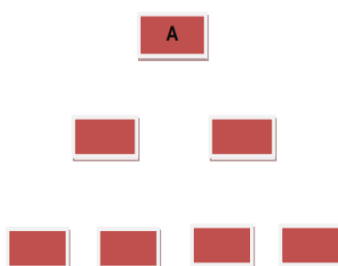
**Figure 10.** Feeder Board.

Here according to Top to Bottom and Left to Right approach and in FIFO manner members are placed. In this case, A satisfies the all criteria. So after shuffling the structure becomes as above.



**Figure 11.** *FeederBoard (after shuffling).*

This is 1-2-4 Board Plan, here when 7th member E enters in the board so board split into 2 new boards and the top most member A get entry in the Main board. So, after splitting A will transfer to the Main board as qualifier.



**Figure 12.** *1-2-4 Board.*

#### 4. CONCLUSION

The discussed systems of calculating commissions clearly show arguments supporting the concept of running operations based on the discussed business model. In reality, hardly any new business can bring such a rapid growth of revenues and at the same time eliminate the risks associated with the need to invest capital. According to the U.S. ministry of labour and the direct sales organization, the likelihood of earning USD100,000 in the same time and with the same effort, is five times higher in network marketing than in case of typical business activity<sup>10</sup>. However, we have to remember that in order to make launching a real marketing plan possible, it is necessary to take into consideration a series of factors present in the environment. We also cannot forget about the fact that market rules affect typical business activity, franchises, as well as Multi Level Marketing organizations in exactly the same way. The choice of the right company functioning based on the method of distribution of network marketing should always require in-depth analysis and assessment of the capacity to achieve success. Such meticulous and analytical approach should also protect against the risk of joining a pyramid scheme, which often is uncannily similar to Multi Level Marketing. In order to avoid this threat, it is necessary to carefully analyze a particular marketing plan in terms of cash flows and verify the appeal and quality of the product or service offered by a company. After confirming that the information presented by the company is credible, we can start an amazing adventure and without taking a substantial risk, enter the world of business.

#### 5. FUTURE SCOPE

The recent crash in the economy is one of the major reasons that more and more people are opting for MLM business. As far as developing countries like India is concerned its people are open to the concept of MLM and want to be a part of it. The present scenario of the MLM in India looks to be promising. As compared to other developing countries there is less acceptance of network marketing in India. One of the main reasons for this is that there had been many scams in India in the name of MLM. There are many companies that have run with the hard earned money of people. The worst part is that law enforcement related to network marketing is lacking in India which makes the situation even worse. However, the fact is that if you are looking to venture into a MLM business in India you have a great future ahead. Surprisingly it is not the products, compensation plan or the company which plays an important role in the creation of the MLM business but it is the people. The people, the prospects and the distributors are considered to be the most important commodity in MLM business. This is because we will always have a large number of products to market besides fantastic compensation plans but the fact is that it

is the people that make the ultimate difference. The people are in fact the currency of your MLM concept. It is good to know that the MLM business is free from recession and it is attracting large number of people who want to earn in multiple ways.

## 6. REFERENCES

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