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**FIQH MUAMALAT (IMU451)  
TITLE: MULTILEVEL MARKETING**

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## **1.0 INTRODUCTION**

Multi-level Marketing (MLM), often known as network marketing (NM), is a business approach utilized by some direct sales organizations in which individual distributors are incentive to recruit new distributors. Distributors are compensated for both their own sales and the recruitment or sales of their recruiters, resulting in a multi-level marketing system. This strategy became widespread in the twentieth century, with well-known examples including Amway, Avon, Herbal, and Nu Skin. Multi-level marketing is a multi billion-dollar sector that accounts for around 1% of retail sales in the United States. According to a 2018 poll, 7.7% of US adults had engaged in at least one MLM organization over their lives. This industry is likewise experiencing rapid expansion in underdeveloped nations.

Multi-level marketing has received significant criticism, sometimes on normative grounds. certain of the criticism stems from the fact that certain MLM companies have been found to be unlawful pyramid schemes. Another point of contention is that some of these companies utilize potentially unethical sales practices' the same time, academics argue that MLM companies may exist without being classified as pyramid schemes. The most significant distinction between a legitimate MLM company and an unlawful pyramid scheme is that legal MLM companies, unlike pyramid schemes, rely heavily on sales to customers outside the MLM. It should be noted that the presence of certain consumer sales does not exempt MLM companies from pyramid scheme claims. (Nikos Kavallaris, 2021)

## **2.0 RESEARCH OBJECTIVE**

The objective of this study is to research in detail related to multi level marketing. Therefore, the writing of the paper aims to:

- a) Elaborate the concept of Multi Level Marketing
- b) Identify the comparison of Multi Level Marketing (MLM) and Pyramid Schemes
- c) Study issues or problems arising in Multi-Level Marketing (MLM)

### **3.0 General Concept of Multi Level Marketing**

Network Marketing is a subset of direct selling and is also known as “multi-level marketing”, “structure marketing” or “multilevel direct selling”. Network marketing can best be described as a direct selling channel that focuses heavily on its compensation plan because the distributors (members of the network) may receive compensation in two fundamental ways. First, sales people (distributor) may earn compensation from their personal sales of goods and services to the consumers (non-member of the network). Second, they may earn compensation from sales to or purchase from those persons whom they have personally sponsored or recruited into the network (down lines), these down lines continue sponsoring or recruiting to the network sharing the benefits with their sponsors or recruiters (up lines). (Rekha Choudhary Karnal, 2013)

Multi-level 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. For example, MLM companies include Amway, Avon, Herba life, Mary Kay and Tupperware (Vander Nat, 2002). Hence, the network marketing organization can be defined as “those organizations that depend heavily or exclusively on personal selling, and that reward sales agents for buying products, selling products, and finding other agents to buy and sell products” Network marketing distributors purchase products at wholesale prices, and may either use discounted products themselves or retail the products to others for a profit. (Hardin). In addition, distributors receive monthly commission for their ‘personal volume’, which is the value of every product they personally buy or sell. Further, the distributors receive a net commission on the sales of those they recruit into the network. The sales developed from network marketing are not developed solely from sales created by retailing, but also developed through recruiting or sponsoring independent distributors. Thus, as distributors continue to recruit or sponsor new distributors to expand their network, the new distributors will contribute new sales to the network and gain commission in return. The multiplying effect on network marketing will expand when these distributors continue their recruiting or sponsoring efforts. This multiplying effect, an important element in the recruiting or sponsoring function, makes the network marketing quite different from other types of direct selling involving paid sales persons. The sunflower and pyramid are the two common business models in network marketing.

According to Investopedia, the term marketing (MLM) refers to the strategy used by some direct sales companies to sell products and services. MLM encourages existing members to promote and sell their offerings to other individuals and bring new recruits into the business. Distributors are paid a percentage of their recruits' sales. New recruits become network distributors or down-lines and further, are encouraged to make sales to earn money. MLM schemes are legal, but there are also illegal operations carried out as pyramid schemes that give a bit of a negative view of legitimate MLM businesses. Multi-level marketing is a legitimate business strategy commonly used by businesses that rely (heavily) on sales to generate revenue. Unlike traditional sales channels, multi-level marketing programs involve using the network for sales and for recruiting new participants. Therefore, they are often referred to as network marketing. (Tarver, 2022)

In addition, multi-level marketing also have advantages and disadvantages. First advantage is low start-up cost. MLM distributors don't have to produce the product. They can acquire products directly from manufacturers and distribute them through traditional or digital marketing methods. This removes production costs, and the distributor can focus entirely on marketing and sales. For example, the company Coway. Coway is a South Korean company that sells water filters and other home appliances and accessories through a multi-level marketing (MLM) business model. The company was founded by Yoon Seok Geum in 1989 and currently has a staff of over 6,500 employees. Water filters manufactured by Coway use various filtration technologies such as activated carbon, reverse osmosis, and UV light to remove impurities from water. The company provides a wide range of equipment that has advanced filtration technology. Coway has partnered with popular South Korean group BTS to promote its products as its brand ambassador in November 2021. (Zaheer, 2023).

Then, passive income generation. Multi-level marketing is a great way to generate passive income for housewives, students, full-time employees and retirees. You just have to put the bricks in the right place to meet the right customers and introduce the business scheme to others who seem interested. The next step is to familiarize them with the possible income benefits and help them earn passive income as they add more distributors and customers in the down-line. Literally anyone can start making money within a few months of joining network marketing and understanding the model. for example, the Avon company. Avon company can generate a profit