

Market share and competition in Multi-Level Marketing

By Petteri Haipola

Starting up a new company and a new product line

Each and every MLM has to capture its share of total market, when they start up a new business or product line. The products they sell can usually be replaced by several others, which are sold by a large number of other MLM or direct selling companies. Some people prefer traditional businesses and their product divisions such as malls, super markets, chemistries, drugs stores, health food shops, boutiques, etc. They are not willing to try some new products a MLM Company might bring to the market place.

The market forces are always finite, not infinite. MLM requires infinite market in order to provide every sales person with sustainable and sufficient customer base. It is usual that sales representatives in MLM do not have regular customers. They buy products for themselves and their household instead of retailing products to end users outside the program and chain of distributors. No sustainable customer base exists. The sales representatives themselves are the majority of customers.

This is how a new MLM and its new product line receive its share of total market. They offer new recruits "an income opportunity", if they only buy some products for themselves and start using them. In order to earn some extra or even huge money they just have to buy and use products themselves and tell about the opportunity to their relatives, friends and neighbors. It will be sufficient if they recruit a couple of more new recruits who in turn do the same and they are well off on their way to financial success and wealth.

Some people take for granted that these income promises and pay plans and programs are viable business opportunities. They start up their own business with great expectations and hope for financial freedom and success. They have not seen behind the smoke and mirrors of MLM industry and truly believe that they have occupied themselves with something extraordinary precious: the best way of marketing products to consumers and to earn huge amounts of money by recruiting a couple of new recruits who do the same.

A new MLM does not necessarily make consumers change their habits of consumption. Consumers do not easily stop buying products they used to buy and start buying MLM products instead, which are usually more expensive than other products. (Anyway, this usually happens that the MLM appeals to their sales representatives to change part of their habits of consumption.) A MLM Company may sell some miraculous lotions and formulas, which are claimed to cure all illnesses and prevent people from getting sick or make their skins look like younger. This kind of products appeal to a tiny number of consumers, but can be increased by flawed promotion, misleading marketing and unfair trade practices.

People buy themselves into these schemes, because they believe they have a fair chance to financial independence and wealth with the help of the program. This is the main reason why some people start up businesses and use health products as long as they believe it could be profitable. If they lose faith in the system and in the income opportunity, they stop buying and using the products as well. The total number of consumers using these kinds of

products will not increase very much as years go by, though some growth may be seen from time to time.

Anyway, usually a new MLM has to make consumers change their habits of consumption, when it comes to products, which people have to buy and use anyway in every day life: washing powder, soaps, shampoo, dishes, etc. MLMs make people try products they never bought or used before the business opportunity. This is how MLMs find new customers who will try their products as long as they are with the program on their way to financial success, as they have been sponsored to believe.

As soon as recruiters lose hope for enormous wealth and riches or even making a few bucks they quit ordering products and eventually resign from the business program. The MLM got what it needed: it sold a few packages of their products at wholesale price to “customers”, who were actually distributors and replaces them with new “entrepreneurs” who do the same. This is how distributors and customers are being replaced by new distributors and customers all the time. Drop out rates are typically between 50-75% per year. Within a couple of years more than 99 % of all sales representatives are replaced with new recruits. Most of the customers are replaced as well, since they are related to the distributors who quit and the main reason for purchasing products was to support the business of their loved ones.

Unlike traditional business MLM does not look for sustainable customers but for new recruits to start up a new business and buy some products by doing it. Every sales representative is authorized to recruit as many new distributors as possible. There is no one to control or regulate how many sales people there may be in a given market area. This is why there seldom are enough demand and customers outside the chain of distributors to buy MLM products at suggested retail prices. There are too many distributors in the same area and too few customers willing to buy these overpriced products of unnecessary or luxury. The MLM Company may still prosper if it only lures in enough new enrollees who are willing to try to make a living buy recruiting new representatives to the program.

Competition on the whole market and between Companies

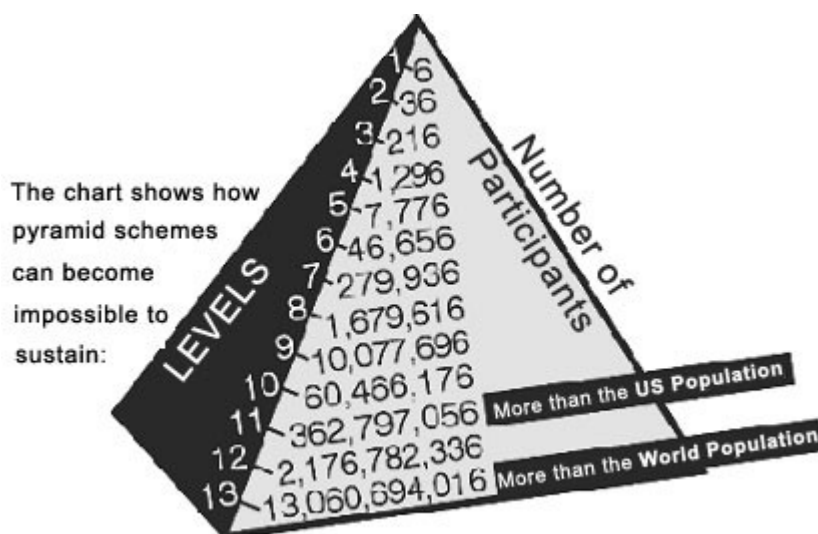
As a new Company enters the market it usually has to capture its share of whole market by using misleading marketing methods and unfair trade practices as it promotes its business to be a viable opportunity for income and financial freedom. Those who capture the share of market from other business enterprises are the new recruits of that Company. They sell the MLM dream of wealth and riches by simply recruiting some new recruits and buying these “marvelous products” and helping others in downline to do the same.

Some very few recruiters and organizers will eventually succeed in becoming rich by MLM - usually those who started up the new program or product line - but the vast majority loses and will constantly lose money, time and effort in a useless business venture they never would have joined if they were told the facts of cold realities of this rotten business model and the real odds for success. Research of MLM by PhD Jon Taylor and Robert L Fitzpatrick of Pyramid Scheme Alert have shown that more than 99% of all sales representatives eventually lose money in these perpetual schemes.

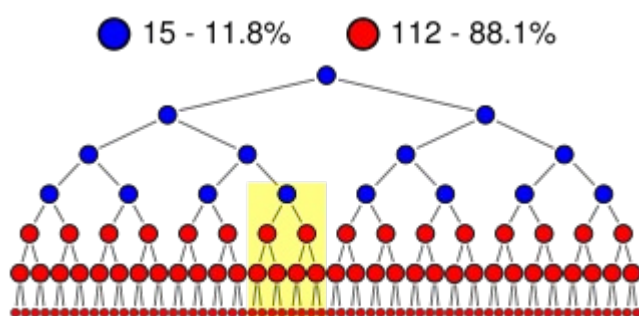
Let us imagine that a new MLM is marketing products which have a 1% share of total market - of the money used by households and enterprises and communities each year for

goods and services. This could be something like \$200 million in US. Of this amount of money there are several Companies, which compete against each other: some of them are MLMs, some Direct Selling and some traditional businesses. The total amount of money spent on these goods and services will increase only a little as years go by and the percentage (1%) will be the same each year. (They might be e.g. health products, nutrition and vitamins.) So, all Companies have a certain share of this market and if a new Company was to enter the market, it has to take its share from other competitors on that same market. It will be possible of course, but there are always certain risks involved. Many traditional and MLM Companies go bankrupt within a couple of years since they started. The Nr. of MLMs is much higher here than the Nr. of traditional businesses due to the nature of MLM industry and its deceptive marketing methods, ill fame and overprized products and services.

There is still another factor, which restricts MLMs from infinite growing. There are only 1-3% of all the people in a given market area who will work in MLM *at the same time*. This means that there are only a limited number of new recruits who start up business every year, but the demand is infinite, since participants need more recruits as exponential growth in order to make a profit. Since the expectations for income are based on the Nr. of recruits in downline and not in reselling products to end users in open public, the program is doomed to fail for more than 99% of all representatives who joined. This Nr. will not change, if there were more participants involved, since the structure of a pyramid selling scheme is planned and built this way. The majority of sales representatives are always positioned on the bottom of the pyramid as these two pictures from Wikipedia show.



Picture 1: Source Wikipedia, <http://fi.wikipedia.org/wiki/Kuva:PyramidSchemeMS.jpg>



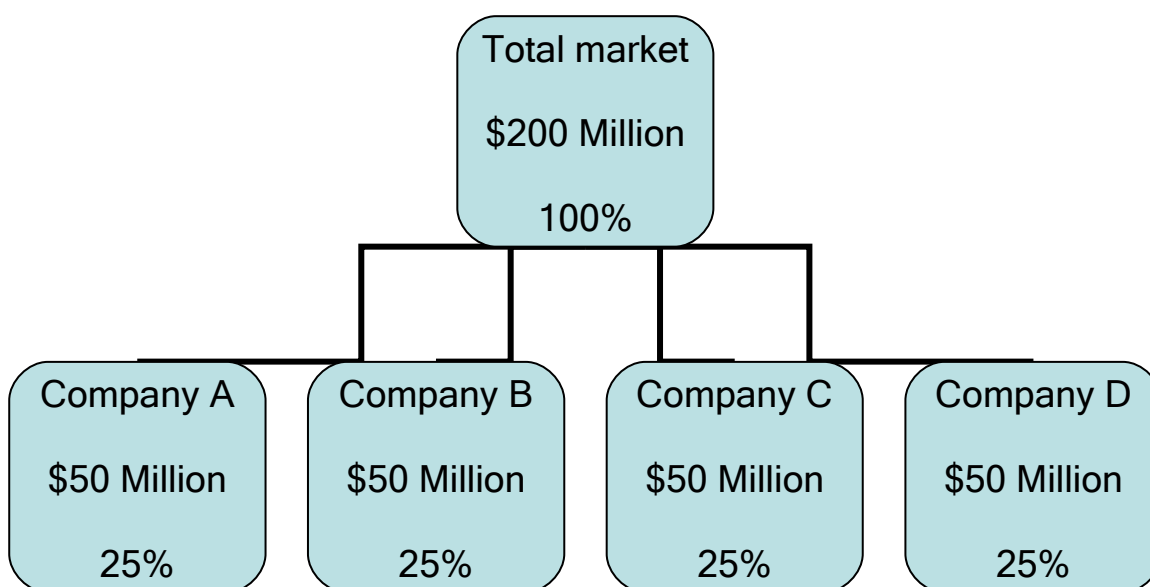
Picture 2: Source Wikipedia, <http://en.wikipedia.org/wiki/Image:Pyramid8BallFull.svg>

Exponential growth expectations and the structure of pyramid schemes require most participants to be positioned to the bottom levels of the chain, where it will not be possible to make profit by overrides from purchases by new recruits in downline, since there is no downline or there are too few people positioned there. This situation will never change, since the structure of the pyramid is planned to be like this. MLMs know this fact and make recruits recruit new recruits knowing that it will be impossible to earn a living or make some extra income for most of the new recruits. More than 99% of all participants do not have enough people in their downline due to the structure of the pyramid pay plan in order to make profit from the purchases of products of their downline and since there is no sustainable customer base and there are too many sales people and too few potential customers it will be almost impossible to recoup one's investments by retail profit either.

MLMs have planned their program and pay plan this way and they see from their data and statistics how many people are being recruited each year and how many do not renew their registration and stop purchasing their products, and they see how many people lose their investments, time and efforts for a tiny number of "kingpin" Distributors on the top and for the owners of that Company. The main source for the profits of top sales representatives, organizers and the owners of the MLM are the losses of a huge number of participants in downline who were lured into this business by false promises of great wealth or easy income - "the opportunity" - and unfair trade practices. No wonder why some people claim immorality and illegality of these schemes based on recruitment in an endless chain.

Now let us take a simple example of how the total market is divided into shares of different Companies. In order to keep it simple, let us imagine that there were only four Companies, who sell these kinds of products and services. The total sales would be \$200 million per year. This chart shows how this market is shared between these four Companies.

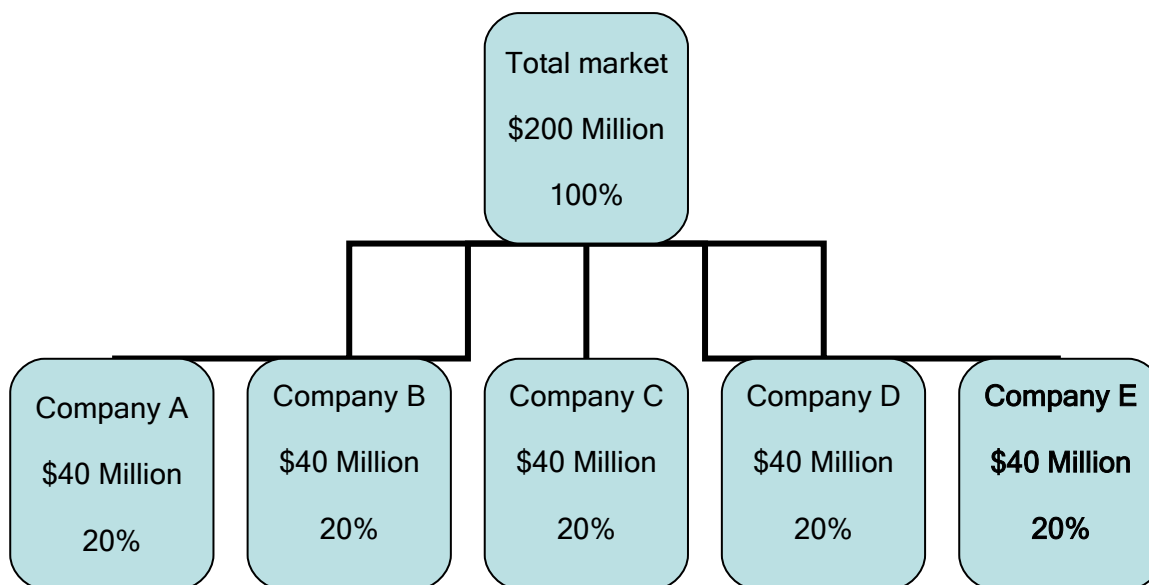
Chart 1: Four Companies share the total market at present time.



Each Company has the same share of total market - that is 25%. Now when a new MLM enters the market, it cannot increase the amount of money spent on these products and services in the given market area (e.g. US or North America) more than customers are willing to spend. The MLM may bring in some new customers who will try these kinds of

products, but in a long run the number of customers as whole will not change that much and nor will the amount of money spent. The only way to enter the market and stay there is to capture one's own share from competitors, that it - from the four given Companies. Let us imagine that a new Company succeeds in doing this and let us look at the chart *ten years after*. What has happened in the market and what are the shares of the companies?

Chart 2: Five Companies share the total market ten years after.



As you look at the chart, you will notice that there are now **five Companies** instead of four sharing the same market. Each of the older Companies has lost a part of its share to the newcomer, **Company E**. The total amount of money spent on these goods and services has not increased, nor has the number of customers. Since in MLM the typical customer is one inside the program - a sales representative or a distributor - it means that the total number of distributors has not increased in ten years. This means that in an average the same amount of people have quit as joined the program.

For instance, if there were 100,000 distributors in these Companies and their money making programs (pay plans), it would mean that each of them sell on an average worth \$2,000 per year, which is pretty close to the average MLM sales people sell in North America and in US according to Direct Selling Association (\$2019 in 2004). So, because the Number of distributors or sales representatives has not increased, it means that either all of them have remained in the program and no one has quit or new recruits have been enrolled to cover up the loss of sales people in the business. It is obvious that Companies never stop recruiting and almost the same number of sales representatives are being recruited each year, so the only explanation why the total amount of participants does not increase exponentially, is that as many participants quit the program as start up in MLM each year. This is why in this example the Number of participants has stayed the same for a period of ten years.

To be correct, the Number of sales representatives in MLM industry has not stayed the same but it has increased from 7.5 million in 1995 to 11.2 million in 2004 according to DSA's statistics. There has been growth of 49% - this means that the number of sales representatives has multiplied 1.49 times. If we consider the growth of the number of people in US inside that time frame and recalculate the figure, it will show growth of 34%.

(*1.34) These numbers show that drop out rates must be substantial in MLM industry, since recruiting never stops. Almost the same amount of people will be recruited each year, but the growth of sales representatives is only the Number of new recruiters deducted by the Number of those not “active” any more or those who did not renew their registration as a distributor. In other words, only a little bit more people are enrolled each year than resign or quit this flawed and perpetual business.

Sources:

DSA, Direct Selling by The Numbers 2006 and 2000

<http://www.dsa.org/pubs/numbers/>

<http://www.dsa.org/pubs/numbers/index.cfm?fuseaction=00numbers>

USA Quick Facts From U.S. Census Bureau The Bureau of The Census:

<http://quickfacts.census.gov/qfd/states/00000.html>. Marc J Perry and Paul J Mackun, Population Change and Distribution 1990 to 2000, (Issued April 2001)

<http://www.census.gov/prod/2001pubs/c2kbr01-2.pdf>, Population in 1997

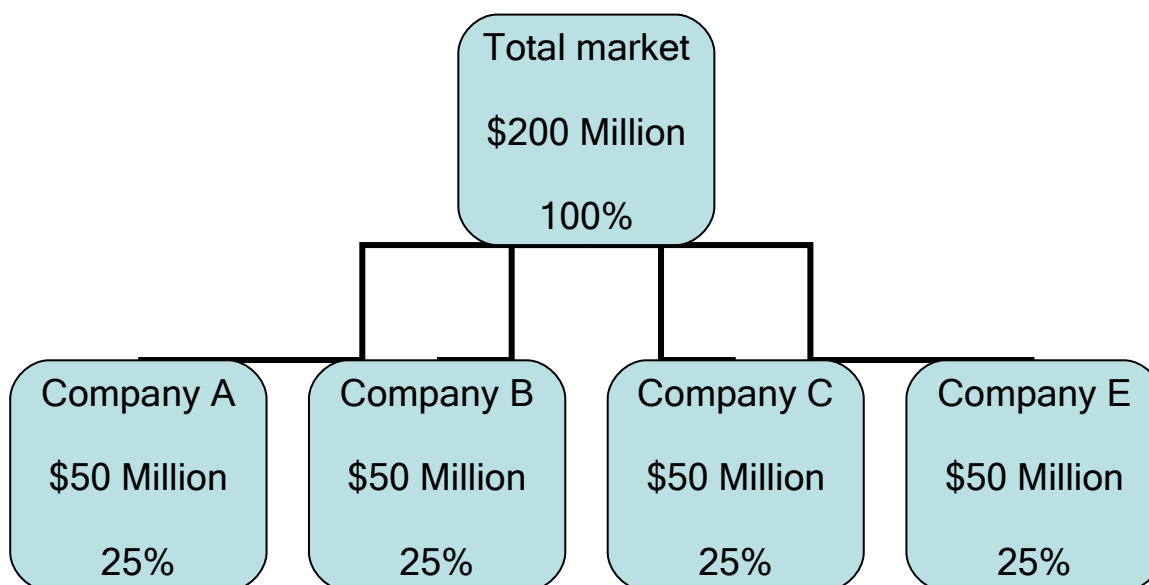
<http://www.census.gov/prod/3/98pubs/98statab/sasec1.pdf> ja CIA The World Factbook

<http://www.cia.gov/cia/publications/factbook/geos/us.html>

Because those already positioned on the top do not usually quit or sell their position, they are the same people there every year. Below them in their downline sales representatives have been replaced with new recruits as they have not renewed their registration and have stopped ordering products as well. This shows that there is no sustainable customer basis and MLM does not give a viable income opportunity for the majority of participants. Since the drop out rates vary from 50 to 75% per year, more than 99% of all participants quit in a range of five years. So, how can these Companies claim that they offer a viable source of income and business opportunity to their enrollees? Isn't it an obvious lie?

Let us go now ten more years into the future and have a look at the chart of market share.

Chart 3: Four Companies share the total market 20 years after present time.



Competition has been hard and we find that one Company - **Company D** - has left the market due bankruptcy or collapse of the pyramid structure starting from the bottom of the

pyramid. If more people quit each year than are enrolled then the total Number of recruits in that Company decreases leading into final collapse of the pyramid, if this tendency does not change.

We see that despite of the fact that the largest MLM Companies never go bankruptcy or collapse, it is still possible that some of the Companies may leave the market due to severe and harsh competition between various Companies. MLM industry operates in this manner like any other industry, but unfortunately the largest and most powerful of these Companies have so many distributors that it will be almost impossible to cut off their share of the market. This means ongoing and continuous lost of money and time and effort for millions of sales representatives each year.

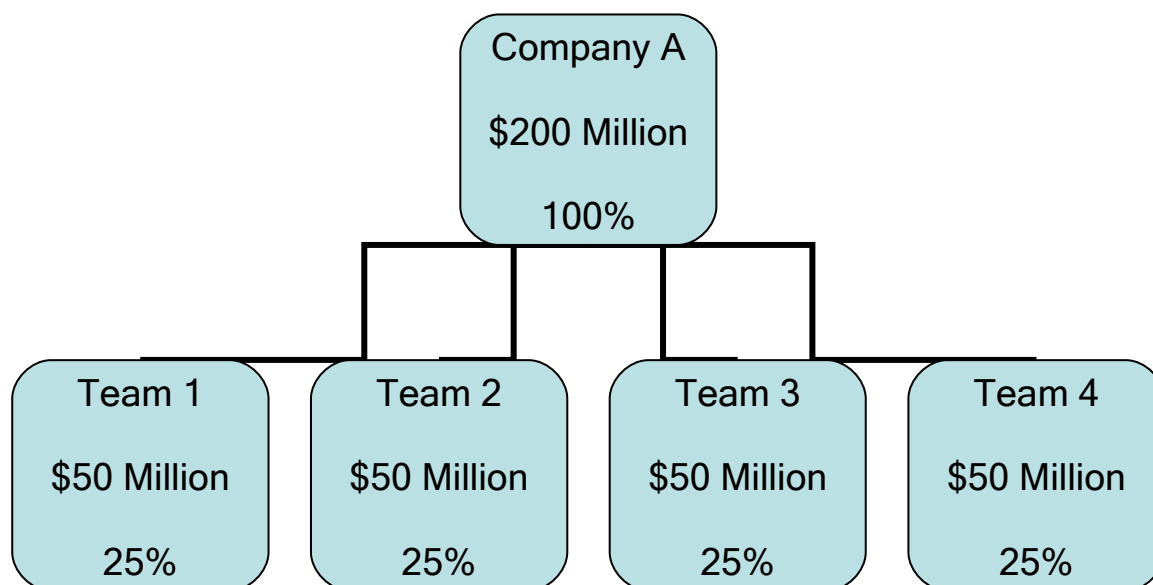
For instance in Amway/Quixtar - the largest and oldest MLM - almost three million IBO's (Independent Business Owners) quit the program every year due financial losses and disappointment in the program. No one would give up a profitable or beneficent business opportunity, so huge drop out rates (in Quixtar 67.8% per year in 2003-2004) disclose that MLM does not offer a viable income opportunity for the majority of sales representatives. More than 99% of all who started in MLM have eventually lost their investments, time and effort, and their losses are the main source of huge income for a tiny Number of organizers at the top of the pyramid and for the owners of MLMs.

Competition between different teams within a MLM and their share of the market

Not only different MLMs compete with each other but also different teams of one Company compete with each other. The market share of one Company is not stable but varies from time to time and so does the market share of each team within a MLM.

Let us take one example and put it simple once again.

Chart 4: Four teams share the market of one particular MLM at present time

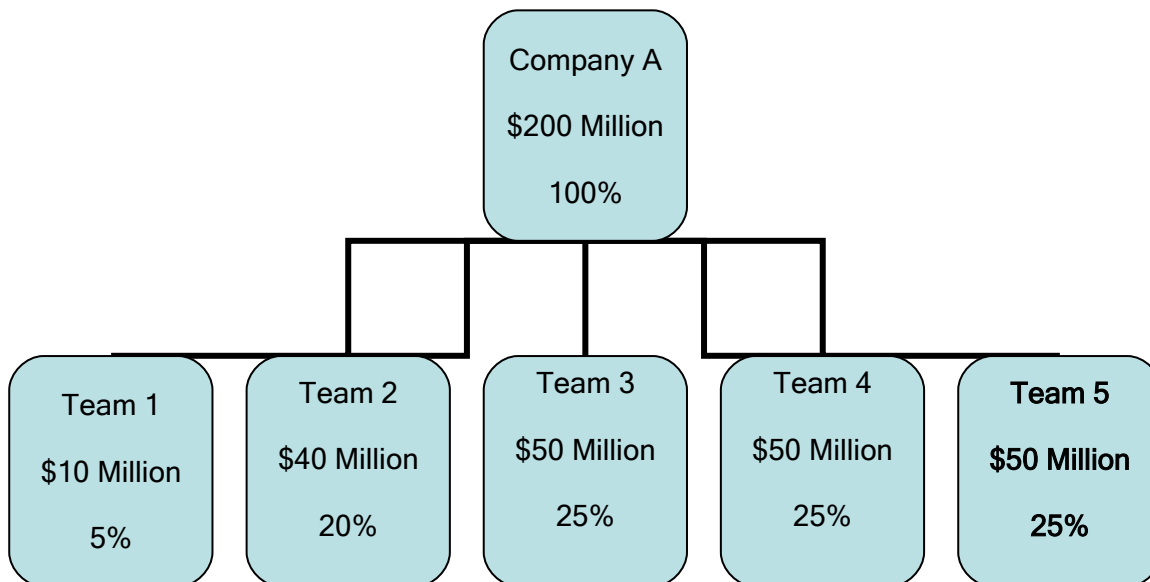


There are four teams to share the market of **Company A** and each team has got the same portion of the market at present time. As times go by the market shares of those teams

within that Company vary and are not stable. Nor is the market share of that Company among other Companies stable, but we shall first have a look at the shares of different teams within Company A and not study competition between various Companies of the whole market.

Let us go ten years further in time and see what has happened.

Chart 5: Five teams share the market of one particular MLM after ten years.



We notice that there are now **five teams** instead of four sharing that same market. The number of teams is not fixed in MLM. New teams come to daylight as distributors have broken away from their upline of sponsorships. That happens constantly in Breakaway Stairstep systems and may occur in Binary system, since as one Leg grows too much it drops out its own upline and captures market shares of other legs of that Company. Some Companies (e.g. Skybiz International 1999-2003) have started new lines of sponsorship (teams) starting from the Company owners as they enter new market areas such as new countries. This happens very seldom, but may still take place. So, the number of teams is not stable but varies in course of time.

In our example we see that **Team 1** has lost a lot of its share of the market and is in great danger to be put off the market, if this tendency does not change. More sales representatives have quit in that Team than new recruits have started each year. This is why Team 1 has lost most of its share of the market to other Teams of that same Company.

Some people think that it is impossible for “kingpin” distributors to lose their position at the top of the pyramid, but it is possible as the chart shows. It is yet not very likely to happen, but it is still possible. Market shares of the Company and of a certain Team are not stable but vary in course of time due to competition on a free market economy. MLM is subject to laws of economics along with other forms of industry.

Since the Average sales of one distributor does not change but is typically about \$100-200 per month it is obvious that sales of one Company depend totally on the Number of Distributors in its scheme. This is quite opposite to traditional direct selling where

distributors sell approximately worth \$10,000 per month or more and earn on an average \$2,000 retail profit a month, since their Company pays for most costs such as auto and phone and samples. In MLM all costs cause a significant risk of losing money, because distributors pay for all costs involved including marketing and brochures and business cards etc.

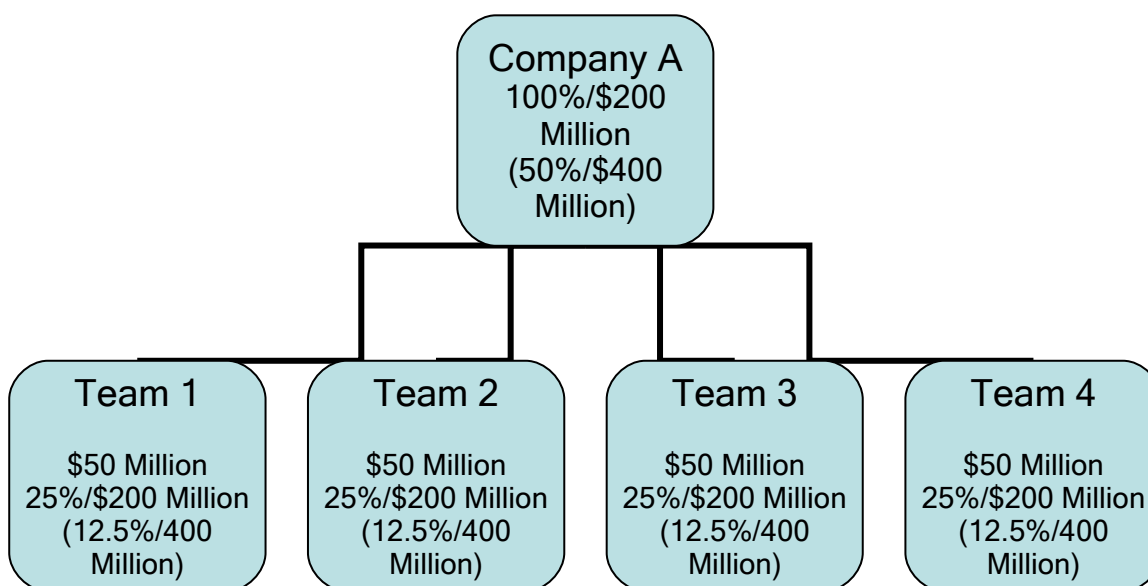
In MLM not only different Teams of the same Company compete with each other but even each and every sales representative is a competitor to his or her fellow distributor in the same team of distributors. It is somewhat strange that competitors work together for the same goal - for enriching their upline and the owners of the MLM! - And they do not notice how stupid this is.

Every distributor who is not directly below you in the chain is your competitor and even one in your own downline may eventually put you off the market by capturing most of the market share of that particular Company. That may happen if a breakaway team or (leg in a binary pay plan) receives most of new recruits in their team. As this thing happens the Company may hold its share of the total market among other Companies. Usually both shares vary from time to time: the share of a particular Company and the shares of the teams in each Company. That is why we shall still have a look at these both changes in shares in course of time.

Competition between Companies and teams in Each Company

Charts give us a clear picture of competition in MLM, between different Companies and between teams in each and every Company. Let us look at an example of Competition between just two Companies and inside those Companies between their Teams. The market share of the total market will be shown in parentheses.

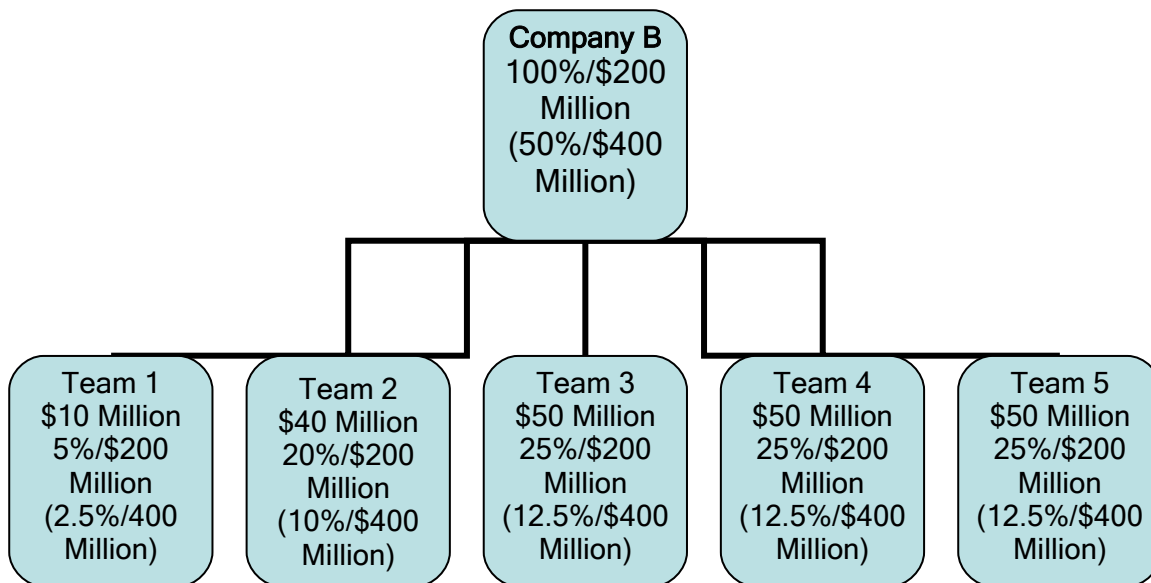
Chart 6: Four teams share the market of one particular MLM at present time



There are four teams to share the market of **Company A** and each team has got the same portion of the market at present time. As times go by the market shares of those teams within that Company vary and are not stable. Nor is the market share of that Company

among other Companies stable, so that is why we shall have a look at another MLM, **Company B**, a competitor to Company A.

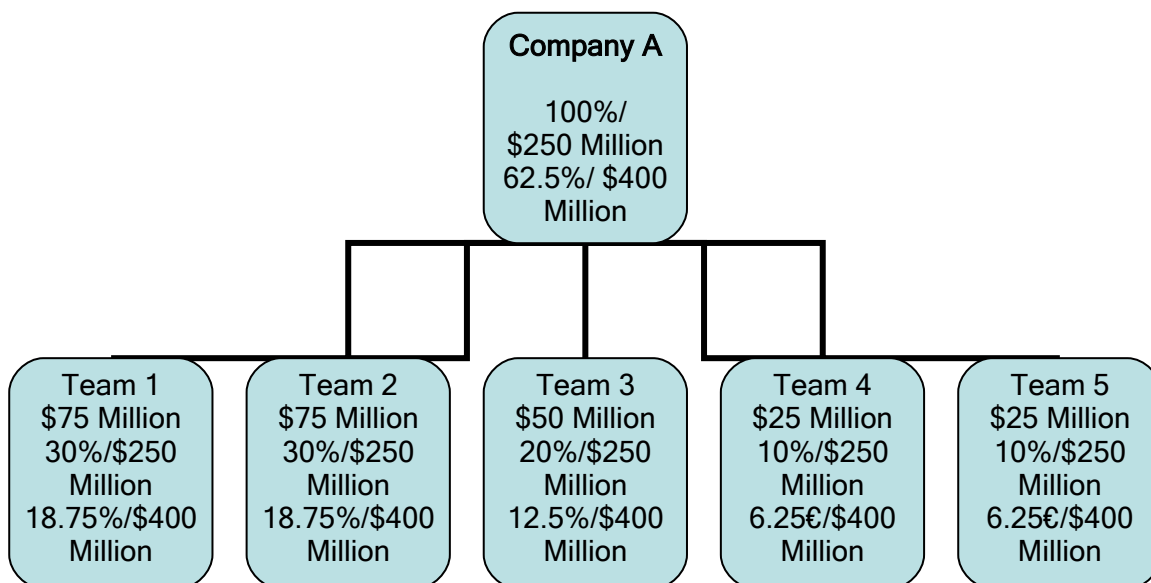
Chart 7: Five teams share the market of one particular MLM at present time.



Company B has got the same amount of distributors and sales in the total market as Company A. Company B has got 50% of the total market and Company A has got 50% as well. Company B has got five Teams, but the market shares of those Teams are not equal. Team 1 is in great danger of being put off the market, since more people quit the program each year than join it.

Let us now see the situation after ten years. What are the market shares of both Companies and their Teams?

Chart 8: Five Teams share the market of Company A after ten years.



There are now **five** Teams to share the market of **Company A**. The market shares of different Teams have changed both in percentage and in the amount of money. Teams Nr. 1 and 2 have increased their share of total market, (from \$50 Million to \$75 Million) Team 3 has kept its share (\$50 Million), Team 4 has lost half of its share (from \$50 Million to \$25 Million) and Team 5 is a newcomer in the market and has captured 6.25% share of total market (\$25 Million).

Company A has captured part of the total market from **Company B**, which has lost \$50 Million of its sales to Company A. The new share of the total market for Company A is now 62.5% (from \$200 Million to \$250 Million) and for Company B 37.5% (from \$200 Million to \$150 Million). We see that the shares are not fixed and stable but they vary in course of time due to competition. Same laws of economics can be applied to MLM as to other forms of industry.

These new figures mean that Company A has succeeded better in recruiting sales representatives than Company B in the given ten years, since both MLMs sell same kind of products and the average sales of one sales person are almost the same and stay the same each year. Total number of participants in MLM has not increased, but of course, 99 % or more of them have quit due personal financial losses and disappointment to the scheme and pay plan. The losers have then been replaced by new losers, who are the new recruits.

This same pattern is repeated year after year and the percentage of losers increase all the time as long as MLMs will continue in business, because the winners are already positioned on the top and will not have to quit as long as their downline keeps on recruiting enough losers to the scheme. Less than 1% eventually makes profit even though in most schemes approximately 1% of all *active* sales representatives earns back their investments and makes some profit at present time. In course of time their share of all participants will decrease, since all losers will eventually drop out but the 1% on the top will not.

Chart 9: Four Teams share the market of MLM B after ten years.

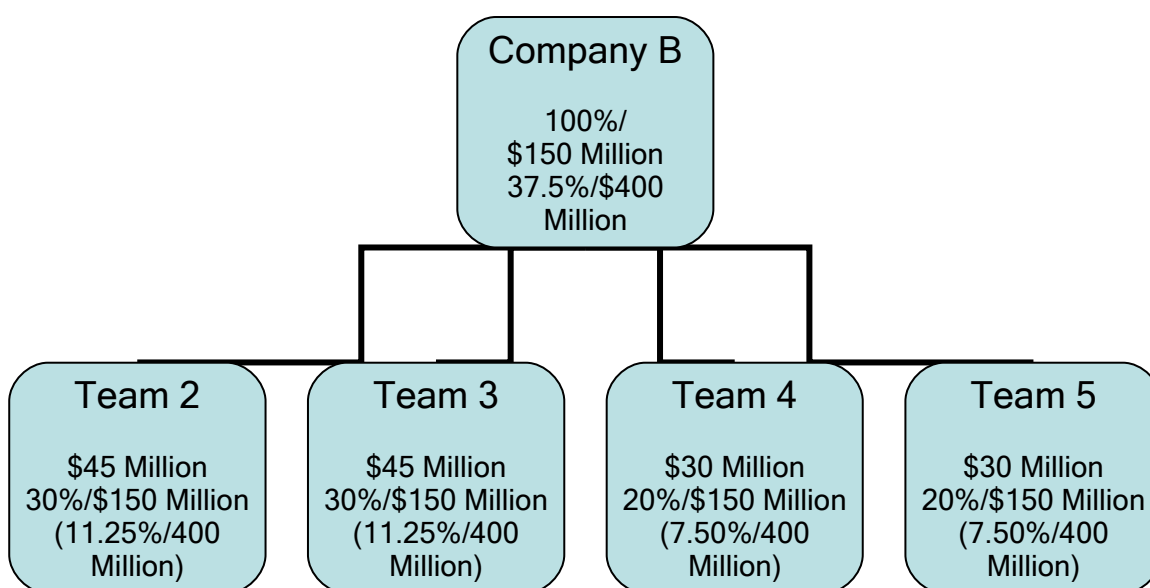


Chart 9 shows what has happened to Company B in ten years of competition with Company A. Usually there are more Companies fighting over the same market, but in order to keep it simple we have only two MLMs here to rival with each other.

Company B has lost \$50 Million to Company A of the total market. Its share of total market is now 37.5% (previously it was 50%).

Team 1 has dropped out and been put off the market. (It had sales of \$5 Million ten years before) Team 2 two has increased its sales volume from \$40 to \$50 Million. Team 3 has lost part of its share of total market from \$50 Million to \$45 Million. Team 4 has lost a bit more, from \$50 Million to \$30 Million. Team 5 is a newcomer and has captured a market share of \$30 Million that is 20% of the market of Company B and 7.5% of total market.

How can Teams be put off the market?

Teams can be put off the market the same way as whole Companies due to competition. It is though not customary for large Teams and Companies to be cut off the market. The owners of those Teams and Companies may yet change, because the children of the owners inherit their position or the owners may sell their business to some new investors in the game.

Illegal pyramid schemes or direct selling Companies?

MLM should be considered as gambling or game or illegal pyramid scheme, since no or only little retail sales take place in the schemes. Most of the products are usually being purchased by distributors themselves and not by customers in the open public. MLMs obfuscate this fact by claiming that most of the participants (ca. 70%) have been registered in as customers and have not tried or intended to sell products or recruit new recruits into the scheme. Since most of the people registered in do not renew their registration after one or two years, they should not be regarded as "customers".

A thorough survey would clearly show that these dropouts are not merely customers but they indeed have tried to resell products or recruit other, but have failed due to market saturation and flawed business structure of MLM. Some have just quit, because they discovered and found out that they had been deceived in a scam of perpetrators who claim to be legal businessmen and sales representatives or distributors. Nevertheless they do not actually resell any or lots of products but promote their business idea instead and motivate their downline in recruiting new recruiters in an endless chain. This should be regarded as an illegal pyramid scheme, but is unfortunately not.

Petteri Haipola, October 15th, 2007.