

Into the heart of MLM

STAR BUSINESS DESK

MULTI-LEVEL marketing or MLM is a constant source of debate. MLM companies have their fanatical devotees and often appear to behave in an aggressive manner. Some of them reach dizzying heights, often to fall.

The issue came to the surface again, after Destiny Multipurpose Cooperative Society Ltd, a unit of Destiny Ltd, hit the media spotlight for going into what Bangladesh Bank said was illegal banking.

The Daily Star has pieced together different Web reports into one to make sense of how MLM works.

MATRIX MARKETING
Multilevel marketing plans, also known as network or matrix marketing, are a way of selling goods or services through distributors. These plans typically promise that if you sign up as a distributor, you will receive commissions, for both your sales of the plan's goods or services and those of other people you recruit to join the distributors.

Multilevel marketing usually promises to pay commissions through two or more levels of recruits, known as the distributor's 'downline.'

In a typical multi-level marketing or network marketing arrangement,

individuals associate with a parent company as an independent contractor or franchisee and are compensated based on their sales of products or service, as well as the sales achieved by those they bring into the business.

In a legitimate MLM company, commissions are earned only on sales of the company's products or services. No money may be earned from recruiting alone (sign-up fees).

If participants are paid primarily from money received from new recruits, then the company is an illegal pyramid or Ponzi scheme.

Some less legitimate companies produce revenues primarily by attracting new participants with the hope of reward and selling them products or services of dubious value at inflated prices.

If the products or services have dubious value or if the participants must purchase excessive quantities without reasonable intent to use or resell said items, then the company is likely a thinly veiled illegal pyramid scheme.

Multi-level marketing has a recognised image problem due to the fact that it is often difficult to distinguish legitimate MLMs from illegal scams.

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able like other companies. Most of the times, the only money to be made is not from the product or service but from the losses of people lower down in the organisation.

The unfortunate "distributor" at the bottom is the loser.

Money can be made with MLM, but its legitimacy is usually always questionable.

HOW FAR MLM BUSINESS WILL GO?

MLM is set up by design to blindly go past the saturation point and keep on going. It will grow till it collapses under its own weight, without even a government official noticing.

All products and services have partial market penetration. For example, not everyone wants to drink filtered water, or wear a particular style of shoe, or use any product or service. No-one in the

real world of business would seriously consider the thin arguments of the MLMers when they flippantly mention the infinite market need for their product or services.

Imagine a neat new product called a widget that will sell for Tk 100. While everyone could use a widget, not everyone will. Some will be afraid of anything new. Some will be loyal to existing brands. Some will want to buy an inferior product for less money. Some will want a more expensive product for prestige, regardless of quality. The reasons go on and on, and the fact is that only "X" Widgets will sell at the given price.

The fact that "X" is hard to pin down does not mean that it does not exist, but, every Widget built beyond "X" will end up producing a problem for the organisation.

The market only wants "X" Wid-

gets at Tk. 100. What are you going to do with your extra inventory of Widgets beyond "X" that no one wants, and the sales people hired to sell those?

MLM VS REAL WORLD

The basic question that needs to be asked is this: If this product or service is so great, then why isn't it being sold through the customary marketing system that has served human society for thousands of years? Why does it need to resort to a "special marketing" scheme like an MLM? Why does everyone need to be so inexperienced at marketing this! Is the product just a thin cover for what is really a pyramid scheme of exploiting others?

No-one can perfectly predict "X," and the situation is not nearly as simple as considered here, but the objective for marketers is to forecast "X" as closely as possible in order to provide lasting value to all parties involved: to avoid missed opportunities as well as waste, loss, or failure.

No-one can perfectly predict the saturation point for any particular product, making the MLM network bound to overtake its demand.

Chillingly, MLMs have no control mechanisms at all. In a normal company a manager says, "We have enough, let's stop hiring people at this point." But in an MLM, there is no way to do this.

If a company chooses to market

this way, it will eventually "hire" (with no base pay and charging to join) far too many people.

Thus, the only "control system" will be the inevitable losses.

The product is the excuse or cover to attempt to legitimate the real money-making engine.

MATH AND COMMON SENSE
MLM works by geometric expansion, where you get ten to sponsor ten to sponsor ten, and so on. This is usually shown as an expanding matrix, with corresponding kick-backs at various levels.

The problem here is one of common sense. At a mere three levels deep this would be 1,000 people. There goes the neighbourhood! At six levels deep, that would be 1,000,000 people believing they can make money selling. But to whom? There goes the city! And the MLM is just getting its steam going. Think of all the meetings! Think of all the "dreams" being sold! Think of the false hopes being generated. Think of the money being lost.

Fraudulent MLM schemes can usually be identified by high entrance fees or requirements to purchase expensive inventories. They often collapse quickly when the merchandise cannot be resold, leaving all but those at the top of the pyramid with financial losses.

Sources: www.vandruff.com and www.consumerfraudreporting.org

Lighting lives of 7,500 people every day

MD FAZLUR RAHMAN

WHEN Islam Sharif spends his last day in office as the chief executive of the Infrastructure Development Company Ltd (IDCOL) today, he leaves behind a company which has made important strides in implementing a successful solar energy project in the world.

"I always thought if I get a chance I will come back and work for the country. I always looked for opportunities," he said.

But initially he had no idea of the project.

"Frankly speaking, I did not have any idea of how the project would fare. I am a banker by training. I had been involved with financial organisations for almost 30 years. This was a different product," he said.

He was a vice president of the banking giant Citibank in New York, managing one of the largest branches of the Citi in the country which flourished to become the sixth most successful branch of Citibank.

The scope to serve the country came when he found out that IDCOL was looking for a new CEO. "I was reluctant to apply when I found out that the company had been formed by the government. Like everybody, I had a perception that it is a government company."

"I applied on the last day of submission. They called me after a week and an interview date was fixed. They were very accommodative."

He said it was a tough decision to join IDCOL. "My family has been living in New York since 1983. They were unhappy. Besides, the compensation package at IDCOL was one-third of what I was making with Citi."

"You might call me crazy, but I took up the job because I believed that I can pay back to my country albeit in a smaller way."

He joined the IDCOL in 2009, and it was installing 12,000 solar home systems (SHSs) every month at that time.

On Wednesday, he came to the IDCOL office in Panthapath for the last time and the company now installs 45,000 SHSs a month.

During his three-year tenure, the IDCOL installed at least one million



Islam Sharif

new SHSs.

"In the village, five people live in a house. It means that with the help of all partners, donors, the government and employees, I have been able to reach 50 lakh rural people living in off-grid areas and light up their lives."

"Small children who used to read in the light of kerosene lamps now study under electric lights. I think this change gives them immense opportunity to improve their lives."

"We install 1,500 SHSs everyday, which means lighting up the lives of 7,500 people everyday," he told The Daily Star in an interview last week.

The company's revenue rose to \$17.8 million in 2011 from \$6.45 million in 2009. Net profit doubled to \$6.4 million last year from \$3.08 million two years ago.

IDCOL has installed 1.4 million SHSs till March this year. The programme has been burgeoning at 117 percent annually.

He also strengthened the state-run agency's manpower. "We had only one office three years ago. We have opened an additional six regional offices to strengthen inspection. Four more regional offices will soon be opened. The number of employees has also doubled to 120 in the meantime."

A solar home system, which supports four 7-watt bulbs, a black and white television and a mobile charger, costs \$400 where IDCOL provides \$25 as grant.

A household has to provide 15

percent of the cost as down payment. The rest \$319 is given as a loan, which has to be repaid at \$8.5 monthly instalments for three years at 12 percent interest.

"Everybody has participation in the process. As a result, the programme has become so successful," Sharif said.

"The household will only need to pay Tk 600 to Tk 700 every month for three years, whereas they will benefit from the system for the next 20 to 25 years."

The solar panel has a 20-year warranty with five years battery life, he said.

"The users are very happy about it. They see it as an asset. I think their economic activities have increased. We will soon conduct an impact study," he said.

The programme started in 2003, with support from Global Environment Facility (GEF) and the World Bank, with a target to finance 50,000 SHSs by 2008.

The target was achieved in August 2005, almost three years ahead of schedule at an expense of \$2 million below the estimated cost.

As of March this year, 1.4 million SHSs have been installed, with electricity generation of up to 65 percent. They save 100,000 tonnes of fuel a year and create jobs for 70,000 people.

IDCOL now has a new target to finance 2.5 million SHSs by 2014.

Sharif, who left Bangladesh in 1981 to take up a position of an

English language teacher in Libya, which came right after his masters in English from Jahangirnagar University, said he enjoyed his work a lot.

"What I enjoyed the most about working in Bangladesh was everybody cooperated, the highest forum of the government to the lowest level of my office staff."

Although he is leaving IDCOL, he plans to pursue a career in the same field.

Sharif will set up a company named SK Johnson LLC, a financial and renewable energy advisory company, which will be based in New York, but will also work for the Bangladesh market.

He also plans to set up low carbon business. "I might set up LED light or higher quality charge controllers manufacturing unit or company that produces low carbon product."

He said it would take one year to take a decision on the business.

He said the solar home system market in Bangladesh has become a \$200-million market. "I strongly believe that if it is run properly it can easily become a billion-dollar industry in the next five years as our programme is growing very fast."

"We have a high standard for quality. We make sure that we maintain the quality of all products we sell to our partners."

He said unfortunately, there is no authority in Bangladesh to ensure the quality of products being sold outside.

"In many cases it was proven that people were simply installing the system and later removing them just to make sure that somebody signs the paper, and officially justifies it, which is an entirely wrong thing to do."

"They are cheating the system just to get electricity connection by installing either low quality products or incorrectly labelled products. This kind of improper behaviour is destructive. It will not help the sector develop."

The country's realtors are against the government decision, which has made installation of solar home system mandatory that could produce 3 percent of the total electricity need of a building before getting connection for electricity.

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Need for NRBs in stockmarket

NURUL ISLAM

AN interesting observation about the Dhaka stockmarket is that, overall, the market has been remarkably consistent for more than eight years. There is only one thing that jumps out at when you look at the index (without trend) and that is in the beginning of 2011 when the market went into a freefall. The financial markets and the markets in Bangladesh got extraordinarily volatile for a while. It was described as a crisis period.

Following the bull-run in the capital market from 2007 to 2010, the DSE crash was really an extraordinary event. In essence, the collapse in stock prices -- the one-day collapse in prices -- was down 9 percent in a single day. The one-day collapse in stock prices was a virtual impossibility. Of course, that was just a change in stock prices; it was not related to any fundamental change in the economy or any fundamental change in corporate prospects. It was just a financial event.

In the past, due to a lack of maturity of the financial markets in Bangladesh, the capital flows were invariably short-term and speculative and were often not related to economic fundamentals but rather to whims and fads prevalent in international financial markets. One of the most pervasive problems in the Bangladeshi financial markets is that investment is for a short haul. For instance, the fact that people look at quarterly returns of mutual funds is incredibly dysfunctional. There is no way that you can expect somebody quarter in and quarter out or month in and month out to produce superior returns. There just are not pricing anomalies that are significant, that are going to resolve themselves in a matter of months or weeks and so it is an impractical game to play.

Non-resident Bangladeshis (NRBs) were slow in taking advantage of the bull-run in the capital market from 2007 to 2010 and thus missed a great opportunity to invest directly in the capital market, but there are still substantial opportunities available not just in the local capital market but also by attracting foreign institutional funds from Europe and the Middle East. International capital flows both from the NRBs and international institutions have significant potential benefits for Bangladesh economy. Countries with good macroeconomic policies and well-functioning institutions are in the best position to reap the benefits of capital flows and minimise the risks.

Traditionally, asset management companies based in Bangladesh have focused only on mutual funds and have not expanded their portfolio of products and service offerings that can create and provide better return to local retail investors. This shortfall in flexibility and lack of diverse product offerings is where there is great opportunity to assist in gaining back the confidence and appetite for local retail and institutional investors in the Bangladesh capital market.

The government could move to influence both the size and composition of capital flows from the international markets by leveraging on both the local institutions and also taking advantages of the skills and professional resources of the NRBs. Bangladesh could also focus on strengthening their banking system rather than just promoting financial markets as banks can provide the surest vehicle for promoting long term growth and industrialisation of the capital market.

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