

MARKETING IN THAILAND NETWORK SALES/MLM COMPANIES PART I

PREFACE

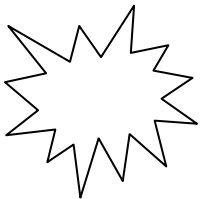
As mentioned in the introduction I decided to study why MLM operations are so successful in Thailand. How comes that many MLM companies can sell like a hot cake in spite of the fact that comparable products with similar qualities can be bought for up to 50 % of the prices charged by MLM companies? (However you may just screen or just throw quick glances of the following details if you wish).

The answer is to be found in the Thai culture, since Thais are easy to persuade if you appeal to them by promising a lot of gold for doing nothing but to pay a deposit, buy our fantastic "introduction package", sell same to your friends and you have then been paid back the deposit plus that you have a nice little profit. If you move on by joining us today you will be a millionaire within 6 months. The value of the fantastic offer is only between 20.000 to 40.000 THB (limited stocks of course) you simply must buy, you do so and in this way the MLM Company already smiles all the way to the bank.

They join, never raise one logical question and they do not complaint when the dreams are not coming through, they never thought that they are victims of fraud because next day they will join a new pyramid sales system believing that this time it works.

I was invited as an observer to an MLM presentation as I wanted to find out why some of my friends are deeply into network sales or MLM.

As a result I wrote this article to them.



Friends:

In is with a lot of circumspection I finally take the step publishing this article on my blog. I do know that we all face the challenges of cultural differences, however I feel the need explaining my observations about relevant topics, which are a part of my life in Thailand and no offense is meant of course. My intention is to try to give some food for thoughts and this article is a very small and not deep business study of the marketing tools used in Thailand and about average consumer behavior.

It is in no way a complete study, I know that I am just scratching the surfaces. As usual when I write strong messages I check my sources and information (facts and figures) very carefully, a check hardly ever done in Thailand where there is limited understanding about financial laws and their consequences and taking advantage of the fact the average (many) Thais are extremely weak when it comes to math a situation utilized by some of the above mentioned companies.

Doing marketing in the kingdom of Thailand is extremely different from excising this important business discipline in a Western country. Of course it must be, now wonder. Differences in cultures and social patterns are obvious and form a challenge to any professional marketing executive. In my first article about marketing in Thailand I will try to describe the phenomena best called Home Sales/Network Sales and then maybe some of us will remember Tupperware Parties?

As far as I can recall the US Tupperware Company was one of the first to do so-called Direct Selling. The methods covers the use of a private network of "representatives or distributors" that sold the products by arranging Home parties; distributors would invite friends and others to their home, where a private sales person would demonstrate the Tupperware products, that could not be bought in any retail shop. The company paid a contribution for each party arranged provided the number of potential customers was minimum 10. From the total amount of sales the lady, who had made her home available on top got a nice little commission, and the sales person or distributor got her profit since it was her own business. She was an independent business owner, which at that time back in the 1960s was pretty unknown.

Since then this method of selling has developed into many different shapes but as far as I can tell the major split today is between MLMs (Multi Level Marketing Companies) and Pyramid Sales Organizations. The separation is very narrow, the compensation system close to be identical but the major difference is that the first group sells products the other, questionable services or just exchange money.

The total market in Thailand for Direct Sales is more than 45 billion THB. The biggest domestic player is AMWAY with sales in 2009 around 13.3 billion and expected sales in 2012 of 20 billion. The company is at the moment building a new head quarter in Bangkok at close to 1 billion THB investments. As all other MLM operations it is US based. It is impossible to get reliable stats in Thailand because it seems to me that the total value of direct sales must be much higher.

AMWAY is a company mastering what is described as **Private Network Sales Company**, but the methods used are almost similar to **A Pyramid Sales Network** but I do realize that there is a difference. In the Western countries pyramid sales are forbidden by strict laws but in Thailand the freedom to juggle around with legal and moral issues are very, very flexible making it easier to use **commission distribution systems** that often can be a mixture of the two systems.

I intent to divide my comments in 2 articles, this one with focus on the Network Sales Systems and getting into details of these two MLMs AMWAY and AGEL, and maybe later this year to be completed by an article with spotlight on more general marketing principles in Thailand within the retail industry. So in consequence I leave out these Western Style Management Disciplines: Market Analysis, Marketing Plan, Market Segmentation, Marketing Mix, Product Life Time Cycles, Pricing Strategies, Marketing Warfare, Marketing Research and I could continue since the list is long.

The reason for doing so is simple, in most of the South East Asia countries the marketing discipline is more based on appealing to feelings and other sentiments rather than to the steps described by Maslow's hierarchy of needs, his theories about human motivations.

I do admit it is a charming issue to cultivate and in all modesty I have been active in the marketing management disciplines in the Western part of the globe (Last position in Europe Business Director controlling 1000 staff and global sales exceeding 8 billion THB) as well as in South East Asia, so I do have some knowledge about the paradigms and it is amazing to experience how different these two parts of the world are, when it comes to the choices of marketing warfare strategies and tactics. In this article I will, as mentioned, not touch the base of Retail Marketing but focus on the MLM (Multi Level Marketing) (marketing) tools.

Many products and services in Thailand are sold by Private Networks. The products vary from any kind of insurances, health care, beauty, daily consumer needs, health drinks, household equipment and the list is endless. It is very seldom to have a Thai network of friends or persons without somebody having a "fantastic" offer, which they explain enthusiastically about and especially how much money one can save or even better how many benefits you gain by buying X or Y product from a World Class Company. Often samples are handed out and you can make sure that next week you will receive a call asking if you were happy with the quality of the samples or satisfied with the effects and maybe you would like to buy them? The latest product sold in the Private Network is frozen chickens, can you imagine that?

The sales talks are almost always supported by strong statements, 90 % of them are documented by dubious "experts" mostly Farang doctors, who cannot be traced or identified. To use a doctor's title gives confidence even if Thais know that anybody can buy a doctor certificate in the streets of Bangkok, so doctors statements must come from a Farang Doctor, whose credibility can never be questioned, or come from a Farang expert.

I can understand that many Thais need to sell something in order to make extra income, like school teachers, but I dislike the idea that they can be busier selling products and services to the students instead of teaching them. But anyhow this is Thailand and why not supports friends, even if sometimes you are not sure if you are talking to a friend or a sales agent?

I have now witnessed this scenario over a long period of time but my curiosity was really awakened when I a few years ago attended a PR party by a Multi Level Marketing Company in the Kingdom and shortly after I started thinking about if the Thais, who are part of the Network actually know how it works, how it is possible to show potential Network participants how a dedicated sales strategy can get you a monthly income of 1 million or more and that the Super Sales person of the year can get an expensive Mercedes as a reward? It is all about the financials is it not? How do you get all this cash needed to fulfill what you promise people? Very easy to explain; All cash can only come from one source; the people who buy, simple no tricks, financials facts cannot be manipulated. You sell to customers, they pay, and you get the cash.

So let me come back to AMWAY and similar companies. Most MLM Companies and similar sorts of operations are known for scrupulous selling methods mainly addressed at naïve persons. They use private networks as sales tools/staff and are known for aggressive and untrue marketing methods. If you look at the official websites for AMWAY e.g. you will see that the specification says it is Multi Level Marketing operation. Here is the legal definition:

Multilevel marketing is a term that describes a marketing structure used by some companies as part of their overall marketing strategy. The structure is designed to create a marketing and sales force by compensating promoters of company products not only for sales they personally generate, but also for the sales of other promoters they introduce to the company, creating a down line of distributors and a hierarchy of multiple levels of compensation.

The products and company are usually marketed directly to consumers and potential business partners by means of relationship referrals and word of mouth marketing.

MLM companies have been a frequent subject of controversy as well as the target of lawsuits. Criticism has focused on their similarity to illegal pyramid schemes, price-fixing of products, high initial start-up costs, emphasis on recruitment of lower-tiered salespeople over actual sales, encouraging if not requiring salespeople to purchase and use the company's products, potential exploitation of personal relationships which are used as new sales and recruiting targets, complex and sometimes exaggerated compensation schemes, and cult-like techniques which some groups use to enhance their members' enthusiasm and devotion. Not all MLM companies operate the same way, and MLM groups have persistently denied that their techniques are anything but legitimate business practices.

Kindly note all the issues as stated above. Thank you. After my discreet participation in the seminar I decided to look further into the reasons why these MLM companies are so successful in Thailand.

The start is easy. The MLM Company (from now on called MLMC by me) finds one person A to assume the role as a sales representative. This person invites say 9 friends to join him/her and they form what is called a leg. Later A forms a new leg, so A has now two and moves up one level to become say a distributor. Now A may still sell directly but will get what is called an overriding commission from all sales from the two legs he/she has established. The MLMC has set a fixed price system for all products and the total amount of commissions are administered and compensated for by the MLMC, who controls the whole game by the identification number of each part of the total network. The payment system is called binary.

Next A will establish more legs but always in pair of two otherwise the MLMC cannot cheat you. When A has two more legs he is promoted from distributor to sole distributor and so the organization moves on until you have maybe in total maximum 10 levels or generations as it is often called. However the problems are often that when persons try to establish their own network or legs in order to get to the top they often over-promise and under-deliver. The fact is that most will fail.

As an average however today a leg has less than 10 members (actual figure is 2.7 persons) the reason being that many leave the system when they find out that they are victims of failures. When I just mentioned that the MLMC cheats it is based on a simple rule. If A has two legs the compensations paid out depends on minimum sales per leg. Number 1 may meet the target set by the MLMC but number two maybe not and if that is the case the MLMC pocket the profits from the sales and in this way makes a lot of extra cash.

The MLMC will first of all demand from a distributor, or sole ditto (or whatever name is used on the way up in the pyramid) that they perform to the benefit of the MLMC which will give a minimum sales target per level and unless the poor bastards meet this they are punished by a non pay of extra commissions. This is the secret weapon of the MLMC, the constant pressure on the organization to perform, often utilizing your families and friends without any scruples in order to get the BENEFITS, big cash or the new Mercedes.

In USA the average MLMC's network or "sales staff" has an average income of 100 \$ per month (actually they are called distributors and the amount is before their many expenses) and only ½ % from step I can make enough sales to get to the distributor level II, which is called "Direct Distributor). In general terms the average loss for one distributor is more than 1000 \$ per year. Guaranteed winner is the MLM Companies the losers are the naïve persons, who believe in all the nonsense they are told, as if the gold is just waiting to be picked up. In many US MLMC 70 % of the customers pull out within the first year after having realized that they are victims of lies and cash cows providing cash for the financial master game, where the controlling persons are laughing all the way to the bank and often living a luxurious life. (In order to compare I have checked this MLM operation NuSkin. Out of 63.000 "agents" only 200 share the major part of the cash flow available to the participants in the Pyramid Sales Organization).

AMWAY says that it has 3 million distributors and last year each sold as an average for 2.333 \$ with a profit margin of only 700 \$ before all expenses like telephones, petrol etc so the final result for the average distributor is a los. The winner is of course AMWAY.

In closing my comments on AMWAY I wish to illustrate the frustrations from many persons, here is one example: SALES TALK TO MY FRIENDS:

With my 2-to-5-year plan I guarantee you'll become **RICH** if you do everything exactly as I tell you to do, starting NOW. First I need \$7 for a motivational tape and \$300 for you and your wife to attend a Major Function and, another \$20 for? Oh, I forgot, I HAVE to tell you that you aren't OBLIGATED to buy ANY of this stuff. But I can't stress it enough that you just won't be able to attain my lifestyle if you don't. . . .oh, well, ANYWAYS, I'll peddle you motivation for 5 years (or 10 or 20) and, **one** thing for sure, **I'll** get rich FIRST. How?

By sucking 3000 others into my down line by getting them excited with the false idea that I've become filthy rich simply by selling AMWAY when, in fact, most of my income is from selling motivation to my enormous group of motivation addicts and programming them to do personal use. The personal use windfall is AMWAY's pay off. And I'm so proud. I created all these addicts with my great training and education system I call Thought Reform. And all YOU have to do to get rich is become a charismatic leader like me and recruit 3000 suckers of your own who'll worship and follow you blindly, not to mention buy tapes, go to functions, buy from their own AMWAY store and

Voila!!!! You're walking the beaches with me!!! Just think, you'll be around someone with the highest ethics and integrity and you'll get to enjoy my dynamic personality and great sense of humor, plus the BONUS of getting into my mind which is a vast storehouse of creativity, humor and free thought. Now, get out those checkbooks, folks, or, if you're broke, your credit cards, or, if they're maxed out run home and get your TV to the nearest pawn shop or, if you've already done that, run to the bank and check into the possibility of a 4th mortgage, well, anyways, you get the idea. . .

Among 4 million USA millionaires none has mentioned that she/he got the millions from AMWAY with the exception of the founders.

The nickname for AMWAY is USA is "The nightmare Builders".

I want to explain how the financials works (payment structure of commissions), but first I go back to the seminar (AGEL) and what I experienced.

It was 100 % like a religious service in an USA Gospel Church where the pastor is a fantastic speaker and can persuade his fans to come up with a lot of cash to support a good course, like helping the blinds or handicapped. You know as well as I do that a major part of this "collections" will never reach the handicapped persons, but is used for his private pleasures like expensive cars and sex, you all know the many examples from God's own country. You also know that he most likely will pay cash for somebody to take the stage and explain to the "fan club" that after he prayed 5 times daily for the pastor and his church, his handicap disappeared in a miraculous way or his mother, who was almost blind for 10 years has suddenly regained her full sight after having prayed and supported his protects by cool cash. After all these "documentations" they all sing Hallelujah, holding hands and give thanks to the Lord or whatever Super Power (MLMC) in control.

To me the seminar I am talking about had the same elements, only the noise level was unbearable. It was like to witness a political speech manipulated by the owners of the company, who were busy counting all the funds floating into their bank accounts. Maybe one thousand persons gathered in a big convention centre, all convinced they've found the true path to success, to wealth beyond their wildest dreams. The promises are golden, fueling dream they do — of luxury homes, fancy cars, yachts and private planes. So who are all these people and what are they so worked up about? Presentations of insurmountable sales by super persons, who had made the target and were, rewarded a brand new Mercedes.

Or presentations by persons, who told us the story how bad he or she was doing before but thanks to the fantastic opportunity given to them by MLM Company their lives had now changed into a dream and all ambitions about a better and rich life were now fulfilled. No eyes were dry after these presentations and everybody waiting like race horses at the starting line; how can I get this same chance and when can I start? The chances for winning the big money are the same as if one plays in Las Vegas It is a fact that a majority of persons signing up for a MLM scheme will be financial losers.

The whole program is 100 % controlled, prepared and staged by the top management with one purpose only, get new distributors to sign up TODAY so we can get at that time 20.000 THB (maybe today only 11.000) from them since this is the minimum price/purchase to get an access ticket to paradise.

It is a well oiled propaganda machine hiding all facts about what the MLM Operation really is and projecting to the audience what they in fact are not. The show is performed with a devastating effectiveness taking a many hostages as possible among the innocent participants. OK I admit I am standing on my toes to get my messages through and I do admit that I always protest when somebody with loud voices try to hammer a lot of messages to me. They do not realize that the loud voices are used to convince themselves and not the audience.

I was wondering how different our views on proper business conducts are. This MLMC of course charges the potential members a fee to participate in order to get brainwashed. The products sold were displayed in a way that I best describe as a catastrophe. Old display units, 50 % of the products not shown but the space used for sales booths; to be a good sales person buys this but that. My heart went out for the poor suckers paying for their own persuade by a bunch of scrupulous persons, whose speeches are badly undocumented arguments. Well I am tough I know that but do your homework look at alternatives Brands available in the market e.g. Aloe Vera and notice how they use same arguments just based on a different documentation.

Like many other persons I ask this question; if the products are so fantastic why are they not sold through normal daily distribution channels? Why do you need to use your families and friends to sell what they can buy in most retail shops and often products with the same benefits and at a lower price? Now we are in Thailand where the laws of marketing and consumer protection do not forbid you to lie. The statements are so fantastic that they surpass all adventures from "Thousand and one nights" Arabian story. Answer is easy in Thailand you do not appeal to logics or common sense you appeal to the sentiments and the more unlikely/fantastic your statements are the better believed. I also wonder why they all advertise with these slogans "Direct sales from factories" knowing that you have an army of sales persons between you and the factory all with the hands outstretched for commissions?

I come back to the seminar. That day 4 or 5 Mercedes were given away as premiums. The costs must have been close to 15 million THB maybe even more I am not sure. But I am sure it is very easy to understand that this is not possible by a normal marketing system; the big cash flow must come from a different structure. So I set out to try to get at least some indications about the sources of the cash flow.

MATHEMATICS AND COMMON SENSE

A MLM company works by what is called a geometric expansion. You start by finding 10 persons, who invite 10 persons to the network (now 100) and then you move on. At level 3 you have 1.000 persons and by level six 1.000.000 persons. They all are told that will make money and I will now demonstrate the financials based on a household equipment you can buy either in HOME PRO or by a Network system like AMWAY.

I want a new vacuum cleaner. There are many choices so I have selected a good brand from Germany a SIEMENS. The price is 10.000 THB (yes it is the best model) in e.g. HOME PRO. Siemens maybe have their own production or they buy it from a factory it does not make a big difference, why not? In general terms the prices for the raw materials are the same, the electric components the same price only the man hours costs may fluctuate. Now we just assume that the SELLING price from the producer is 5.000 THB. So 5.000 THB is then the purchase cost for both HOME PRO as well as for the MLMC.

We further assume we sell 1000 units in HOME PRO for 10.000 THB/each and that the total profit is then 5.000.000 THB (10 million minus 5 million).

But the MLMC needs to sell at a much higher price in order to get a lot of cash for commissions to all levels in the Sales Network and I have tried to make this simple calculation:

By selling at the price 20.000 THB the MLMC has 10.000.000 THB available towards commissions to all members of the Sales Network after deduction of the 5.000.000 purchasing costs (Sales 20 million less 5 million purchase less 5 million profit = 10 million).HOME PRO has 5.000.000 to cover all costs to operate the company, that is then all costs (including overheads and profit) regardless of nature.

The MLMC does not have a total cost level at 5.000.000 since it has a Warehouse only and limited staff, but let us just say it has the same operational costs and if so where is all the money (the extra 10 million) coming from to pay commissions to the Sales Network? It can only come from a higher selling price of the product, very simple, which is why a MLMC has a much higher selling price than a normal retailer.

Distribution of the 10.000.000 THB cash commissions a speculative example:

SALES	1,000	20,000	20,000,000	
COSTS			5,000,000	
MARGIN			15,000,000	
COMMISSIONS			10,000,000	
NET			5,000,000	
PROFIT	-	10,000,000	to be distributed	
DISTRIBUTION	PERSONS	%		PR.PERSON
STEP 1	100	20	2,000,000	20,000.00
STEP 2	5	10	3,000,000	600,000
STEP 3	2		3,500,000	1,750,000
TOTAL			8,500,000	
MLMC			1,500,000	PROMOTIONS

As mentioned this is a speculative example but maybe it is close to realities and we can play with the figures and change the binary system's basic figures but end up with an indication why it is possible to produce so much cash for both the Sales Network and the MLMC. I have just only one Marketing Cell; 100 legs controlled by 10 distributors and 5 upper level sole distributors each in control of 200 legs and finally 2 super sales executives each in control of 500 legs. After my speculative distribution the MLMC end up with a profit 1.500.000 THB higher than HOME PRO selling the same 1.000 products at half the price.

But of course it may not be so easy to sell the similar product at a 100 % higher costs, the customers are not naïve or are they? Yes they are!

First of all MLMC will not sell e.g. the SIEMENS Brand it will have its own Brand. They ask the same producer to change the design, but inside all components are the same (except one, see later). Next step is to find what in marketing is called USP, unique selling points. What does a person think of when she or he sees a bottle that is half filled? To some 50 % is still left to others is it 50 % empty.

So now the MLMC invents a lot of selling arguments; "This vacuum cleaner OUR BRAND has sold in USA and Europe for the last 5 years and sales have surpassed 1 billion \$" or " tests from European universities show this is the vacuum cleaner with the most effective suction power". I can easily find more examples. Why it is these companies always use sales figures from USA and Europe? The list of super undocumented sales arguments has no end.

Since however the vacuum cleaner is sold through a private network selling to families and friends the compensation plan has to be very attractive and promising. In the case of AMWAY this company has faced tremendous problems over the last decade and has now been forbidden by law to issue wrong statements and in many countries (like China) AMWAY is not allowed to sell via a MLM system but only in retail stores. In Korea same company faced problems and was convicted of false and misleading information. In Denmark a well known entertainer lost 5 million DKK by trying to establish an AMWAY operation but failed. Danes are not so easy to fool.

Results in US show that it takes 20 years to break even between your income and expenses to be a sales person for AMWAY and 28 years before you can reach next level. (Bradley Orner). Furthermore AMWAY has been criticized for telling its Network that you can buy products at a "whole sale price) where as in fact the real prices are much higher than in a retail shop. This company recently advertised an "offer" for a computer at 3.500 \$ and you could buy same in a retail shop next door for 2.000 \$. The company is perceived as aggressive and manipulating and do not care for the financial problems they often represent to its network of distributors. The amount of court cases against this company is enormous and all over the world. But since the two founders are billionaires they can afford to have the best lawyers possible and they for sure has close to unlimited funds.

One of the best lies MLM have produced is how much money you can earn if you get to level 10 if you reach this you become a billionaire. They forget the fact that level 10 equals 10 billion which happen to be more than the whole population of the world so where is this figure coming from? Another lie, they lie from morning to evening and laugh when they see the daily statements from the banks. Any criticism of AMWAY will often result in an attempt to suppress this.

In most MLMC's potential members of the Network must pay some sort of entrance fee plus pay for sales and educational materials, which are updated monthly forcing the poor persons to buy one new video or CD ROM (sales presentations/arguments) every month. In this way some basic cash flow for the MLMC is almost guaranteed.

The Vacuum Cleaner Special Brand “The Super Best Vacuum Cleaner”

I mentioned that this model is almost close to the e.g. SIEMENS model with one exception, inside is built in a small device that once a year will stop the vacuum cleaner from working properly so you need to buy a new device for 4.500 THB. If we assume that the vacuum cleaner will serve you for 10 years you can add 45.000 THB to the purchasing price and again the Network gets rich from your cash. Now tell me please who is clever and who is naive? It makes more sense to sell or dump the super vacuum cleaner and buy the real SIEMENS model, you will save money. But of course you will disappoint your friends and who want to do that?

To be continued in PART II

