

The History of Network Marketing

The most fundamental fact of life in our world today is change. As a rule, people are reluctant to change. We resist it, we like to stay within our comfort zone of what is known and accepted by most. **THIS IS HUMAN NATURE.**

But it's true that what you resist will persist, especially when you resist a better method whose time has come. In almost every field of endeavor, the arts, sciences, medicine, and business, most new ideas have always met with resistance and rejection at first. The more unique and revolutionary the idea, the louder and stronger the opposition to it.

People have always been afraid and even ignorant about ideas and methods that may result in change. Fear of change caused ridicule of Christopher Columbus, Louis Pasteur, Thomas Edison and Albert Einstein. There are other examples of how fear of change had effects on progress.

In the 1800's, people bought what they needed at small, family owned shops. Then a man named W.T. Grant had an idea that created change. What if we combined all these separate, little shops by making them individual departments under one roof, in one large store? A new and better way of doing things. Customers loved it.

The individual merchants who owned the old-fashioned retail stores saw their businesses decline. The shopkeepers fought back politically. There were thousands of them with thousands of votes, and they lobbied for their right to do things the same old way.

They finally got the local and state governments to outlaw Grant's department stores. Eventually, Grant's department store won out. If there is a better way it will persist. In the early 1960's franchising was a revolutionary new technology in business, and it was also met with resistance. Newspapers and magazines wrote what a scam and rip-off franchising was. Stories of people who lost their life savings to some franchise were everywhere. There was a strong move to make franchising illegal. In fact, franchising actually came within 11 votes of being outlawed by Congress.

Today this so-called scam is responsible for over 34 percent of all retail sales in North America. Franchises sell nearly 800 billion dollars worth of goods and services today. Every industry goes through an evolution similar to this. Chiropractors were considered quacks in the 1970's, the stock market was considered shady and a form of gambling, and the first newspaper in British North America, The Public Occurrence (1690), was suppressed by the governor of Massachusetts. Now, we almost can't do without these industries.

The Pioneers

Like all-powerful concepts, Network Marketing has also met resistance due to a lack of understanding. There is no mystery to Network Marketing. It's just another form of sales and distribution. Network Marketing is 50 years young. In the early 1940's a company by the name of California Vitamins recognized that all their new sales representatives coming aboard were friends and family of their existing sales force, primarily because they wanted the product at wholesale cost. They also discovered that it was easier to create a sales force of a lot of people who each sold a small amount of product than it was to find a few superstars who could sell a lot of products. So they combined those two ideas and designed a sales compensation structure that encouraged their salespeople to invite new representatives from satisfied customers, most of whom were family and friends, who each had the same right to offer the product and representative status to others, which allowed the sales force to grow exponentially. The company rewarded them for the sales produced by their entire group or network of sales representatives. Network Marketing was born! A few years later, the company changed its name to NutraLite Food Supplement Corporations.

In 1956, NutraLite was joined in Network Marketing by Dr. Forrest Shaklee to gain a broader distribution of the food supplements he had developed.

Not long after, in 1959, former NutraLite distributors Rich DeVoss and Jay Van Andel started the Amway company as the American Way of marketing products. Like many truly innovative breakthroughs, the development of true network marketing was an accident.

Abuses of exponential growth haunted network marketing for years and it is still misunderstood today. One of the first abuses of the concept of exponential growth to generate income may have been the chain letter craze that swept the U.S. after World War I. The letters promised great profit if you would send a dime or a dollar to the person at the bottom.

The chain letters spread as far as Europe, and by the 1930's the U.S. post office estimated that 10 million letters were being mailed each day. Postal Authorities and law enforcement agencies battled the fraudulent schemes and the chain letter phenomenon began to subside in the early 1940s. Unfortunately, this scam spawned schemes which came to be known as pyramids, where money was given for the right to involve others, as no valid product which was being purchased from the company.

In 1974, Senator Walter Mondale declared such companies to be the nation's number one consumer fraud. Law enforcement agencies moved quickly to clean up the abuses. In the mid 1970's, with no clear understanding of what constituted a legitimate use of network marketing, the Federal Trade Commission and state agencies across the nation turned their eyes to almost all network marketing

companies. In 1975, the FTC filed suit against Amway, alleging that the company was an illegal pyramid and that its refusal to sell its products in retail stores constituted a restraint of trade.

Amway spent four years and millions of dollars in legal fees to clear its name. In 1979 the FTC (Federal Trade Commission) ruled that Amway was not a pyramid, that its revenue was generated from the sale of its products, and the FTC acknowledged network marketing as a legal and efficient distribution system. Network Marketing exploded in the next decade.

Who's Involved in Network Marketing?

Today there are thousands of Network Marketing companies operating throughout the United States, Canada, Mexico, South America, the United Kingdom, Europe, Australia, New Zealand, Israel, Japan and the Pacific Basin. Little Malaysia alone has more than 800 active Network Marketing companies. Network Marketing is reported to be a \$100 billion dollar industry, internationally, made up of FORTUNE 500 and New York Stock Exchange (NYSE) companies.

In 1993, Amway was the fastest growing foreign company in Japan with sales over \$1 billion. Discovery Toys markets their products solely by Network Marketing, with sales figures in excess of \$100 million. Sprint, MCI and AT&T make their long distance phone service available through Network Marketing companies. The A.L. Williams Company utilized Network Marketing and astounded the insurance industry by outselling Prudential, a giant in the industry, in four short years.

Traditional sales method companies such as Colgate-Palmolive and the Gillette Company have Network Marketing subsidiaries. Rexall Drug is now utilizing the Network Marketing method of distribution with its subsidiary, Rexall Showcase. Network Marketing companies such as Melaleuca outperformed Liz Claiborne, The Limited and John Paul Mitchell while Nu Skin bested the likes of Maybelline, Dow Chemical and Matrix. Mary Kay is bigger than Johnson & Johnson, Amway is bigger than Revlon, and Avon is bigger than Estee Lauder. Sam Walton, the founder of Wal-Mart is quoted as saying, "I'd rather run a profitable business in an unconventional industry than an unprofitable business in a conventional industry."

Network Marketing has evolved in other ways, as well. Companies that began as direct selling companies are now utilizing networking marketing compensation plans. Some examples include Avon, the \$3 billion cosmetic giant, Watkins Products, which had been direct selling for nearly 100 years before it converted to network marketing, and Encyclopedia Britannica.

One reason for the decline of direct selling is that beginning in the 1970's, distributors making calls on people found that no one was home. Women, long

standing as the customer backbone of direct sales, had entered the work force, leaving few at home during the day. Companies watching these societal trends moved quickly to revise their marketing plans to network marketing, which allows for more informal methods of sales and greater compensation.

Network Marketing Companies have actually pioneered entire industries: natural vitamin supplements, nutrition and diet drinks, concentrated and environmentally friendly household cleaners. One network marketing company almost single-handedly created the billion dollar home water filtration business.

The Company Wins, too

Why are so many companies utilizing network marketing as their chosen method of marketing? Simply stated, it's more efficient! They do not pay for marketing, distribution or sales until after the sale is made and the product is delivered. Compare that to traditional marketing where a company can spend millions of dollars on advertising, as well as all costs associated with an employee based sales force, such as benefits, support staff, communication, travel and office, before any product is sold. Charles Givens, financial expert and best selling author of *Wealth Without Risk*, points out that 80 percent of the cost of getting a product to consumers today is the result of marketing expenses. Companies are looking to move their cost as close to the point of sale as possible. Network Marketing companies replace traditional advertising and marketing costs with sales commissions to the independent representatives, paid after the product is sold.

In her best selling book, *The Popcorn Report*, Faith Popcorn explains additional societal trends driving the success of Network Marketing. Her book describes consumers as having a desire to cocoon and stay at home. She believes that they wish to avoid crowded malls and traffic jams, and are looking for the convenience of direct delivery of the product that Network Marketing provides. *Advertising Age* magazine states that the recommendation from a friend is the most powerful form of advertising; that is what Network Marketing is all about.

The changing work place has demonstrated that there is no security in the traditional corporate structure and career path. In the United States over 3,100 jobs are lost each day due to downsizing. Automation and technological advances are streamlining business and changing entire industries. Millions of people will be out of work searching for the same kinds of jobs their former employers just eliminated, in another company that just hasn't yet streamlined. This is postponing the inevitable; In fact, 47 percent of the companies that made up the Fortune 500 in 1980 are no longer in operation today, which represents a net loss of more than five million jobs!

Technological advances affect the work forces of entire industries. One example is the vinyl record business. In 1985, vinyl records supported a \$24 billion a year

industry. Today it is all but extinct, having been replaced with producers of cassettes tapes and compact discs. The steel and copper industries have suffered with the advent of new plastics and alloys. The functions computers are able to execute have caused the replacement of millions of workers. Robotic technology similarly has taken its toll in the workplace. One robot can replace twenty human workers and extinguishes the need for companies to pay exorbitant amounts in employee benefits. Man Power Inc., a temporary service, is now one of the largest employers in the world because companies are finding it less expensive to hire temporary employees and thereby avoid paying benefits to permanent employees.

Marketing on a part-time effort can provide a financial cushion of residual income to protect oneself from such events. A recent Wall Street Journal survey found that 80 percent of the work force wants to own their own business and 40 percent surveyed would like to work at home. This is exactly what network marketing provides. People are searching for ways to build a future that develops leadership and provides a balance in their lives for their families and each other, without sacrificing their sanity in the process.

How Does It Work?

In network marketing, you share information and develop personal and professional contacts. You are rewarded for sharing information that results in product sales. Network Marketing empowers you to build your own networking sales organization from your personal and professional contacts, which also empowers everyone to do the same, creating exponential growth of your network. You can earn income from the successful efforts of your network of business associates. Unlike conventional Corporations with one chief executive at the top, in Network Marketing everyone is the CEO of his or her own independent organization.

A network marketing company supplies the product. Then they join in partnership with a network of independent representatives, each one in business for themselves. The company takes care of the research and development, finances, management, public relations, production, warehousing, packaging, quality control, administration, shipping, data processing, the accounting and payment of representative sales commission checks.

Cooperation vs. Competition

One of the reasons for the success of Network Marketing in the 2000's is that it is based on cooperation, not competition. Unlike in traditional business, career advancement in network marketing comes directly from helping to create success with those that you introduce to the company. Network Marketing is sharing information that results in product sales. People involve themselves because they want to finally be compensated for what their efforts are really

worth. They're involved because somebody cared enough about them to show them the awesome opportunity of network marketing. They get involved because they were ready to make a change.

Why Hasn't the Truth About Network Marketing Been Told?

People resist change and are fearful of what is not fully understood. People are comfortable with what is known and accepted by most. The truth is that most people in power today have an overriding fear of the loss of their own power. Network Marketing is about empowerment of the individual. Is it really your best interest they have at heart? Remember what happened with W.T. Grant, franchising, and the first newspaper? Most new concepts have always met with resistance and rejection at first.

Newspapers, magazines, radio and television earn their primary profits from their advertisers. Is it in the media's best interest to say anything positive about an industry that does not advertise? Do you suppose major traditional marketing companies that are receiving increased competition from network marketing companies are excited? Whose side do you suppose the media would take to protect their advertising dollar?

A few years ago a network marketing company that sold personal care products became the attention of the media and several state Attorney Generals. Their sales were approaching \$500 million dollars. These sales were being taken away from companies such as Revlon, Max Factor, Estee Lauder and others in the health and beauty aids industry. Do you believe the competition was pleased with the success of a network marketing company that was not spending multi-millions of dollars on advertising as they had traditionally done? Furthermore, network marketing companies were bypassing the department stores and malls and going direct to the consumer's living rooms with sharing, caring service and timesaving convenience. What if you were one of the brokers, retailers, wholesalers, media people or any other person whose job or businesses were being threatened because network marketing was a new and better way of doing things? What would you do? If you had a friend in the State Attorney general's office would you call them? If you or your company had contributed to any industry lobbyist, political action committee or had media contacts might they be contacted, too? What if, in fact, your job were in jeopardy either as the VP of Sales or as one of the executive staff who might have to answer to stockholders and explain why your market share was being taken away by some network marketing company and your position, your power and your income were at stake? Do you suppose these strategies are ever used against a competitor? How many votes do you suppose an Attorney General would risk by focusing on a network marketing company that employed many people and paid a great amount of local and state taxes - in a different state?

Just as in any business or industry, there are scams and schemes that hurt the industry image. Real estate has had its scams. Banking and Savings and Loans

have had their improprieties. Ministries have had abuses for self-serving purposes. The stock market has had its insider trading scandals. Why should network marketing be any different?

Look at the company, the product line, its management and their past history. Understand the commitment that is necessary to achieve success and residual income. This advice is just as valid in network marketing as in anything else.

Network Marketing is the new way to financial freedom. You'll never create residual income and freedom from the traditional job. Even professionals are trading their time for money; if they are not seeing clients or patients, they are not getting paid. Most income is temporary and it is easy to determine if your income is temporary - just stop working for 90 days. If your income stops or slows down, you have temporary income.

In network marketing you can stop trading time for money. Once you develop a solid network of sales representatives, you will create ongoing residual income. This can give you the freedom to do what you want when you want to.

It's interesting how resistant we are to change. We want to stay in our comfort zones even when we're miserable.

It's been said network marketing is the next step in the evolution of free enterprise. But there is one thing we can always be assured of: the most fundamental fact of life in our world today is that change is inevitable!