

**A CRITICAL ANALYSIS OF HALAL MARKETING IN
MALAYSIA'S MULTI-LEVEL MARKETING (MLM)
INDUSTRY**

BY

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**A thesis submitted in fulfilment of the requirement for the
degree of Master of Halal Industry Management**

**International Institute for Halal Research and Training
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ABSTRACT

The concept of halal is based on the Hadith narrated by Imam Muslim “Allah is Pure and Takes Nothing except that which is Pure”. This is not limited to the consumable things but it relates to all activities of one’s life. Indeed, the life is given to each human for nothing but for worshipping Allah alone. Worship in Islam takes many different ways, which one of them is through the business and trading. Business itself is broken down into many different kinds, one of those which has become nowadays trend is Multi Level Marketing (MLM). MLM business is a business model that involves selling and recruitment of new distributors inside the company. Multi Level Marketing is seen to be good as it helps many people to achieve their dreams, but in contrary, it is observed as a medium of cheating that promises wealth to a few by oppressing the poor and uneducated ones. With its players reaching to 2 million in Malaysia since its establishment in early 1990s, MLM’s presence in the business industry should not be taken lightly. This factors include the system itself manufacturing, the distribution channels, the after-sales service, and the long-run vision of the company. By doing this, it is aimed that the doubtful or even the unlawful (haram) practice of MLM can be eliminated and abstained by the Muslim players and better MLM companies can be established, using proper S.O.P and guidelines. The objectives of the research are gained through the library method and interviews.

خلاصة البحث

التسويق متعدد المستويات من منظور إسلامي صار مفهوم الحلال الطيب من الأهمية بمكان هياة المسلم. ويستند ذلك على الحديث الذي رواه الإمام مسلم (إن الله طيب لا يقبل إلا طيبا). وهذا لا يتعلق بالأشياء المستهلكة فقط بل يتعلق بجميع أنشطة الحياة المختلفة. وبما أن الإنسان خلق لأجل العبادة فقط ويعبد الله وحده لا يشرك به شيئا. والعبادة في الإسلام تأخذ أشكالا مختلفة قد تكون في العمل أو في التجارة والأعمال نفسها مقسمة إلى أنواع مثل التسويق متعدد المستمدات (الامتياز) ويتضمن ذلك توظيف موزعين جدد في مكان العمل نفسه أو في الشركة ينظر إلى المستوي المتعدد على انه جيد ويساعد كثيرا من الناس على تحقيق الأهداف والإسلام. أما وسائل الغش والخداع التي تستخدم لقمع الفقراء وغير المتعلمين العاملين في التسويق يزدادون يوما بعد يوم ولذلك لا تستحق بالامتيازات والرهون البحرية في قطاع الأعمال. هذا البحث يدرس نظام الإمتيازات الحالي التي تعتبر حلالا طيبا. وهناك العوامل الأخرى المدمرة مثل النظام نفسه التوزيع وقنواته وخدمات ما يعد البيع والسرواية طويلة المدى. وذلك تعني على ممارسة الامتيازات المشبوهة أو حتى وقف الامتيازات تماما. يمكن تأسيس شركات أفضل في حاله الامتيازات واستخدام برنامج الإجراءات المثالية وتم العمل على تحقيق أهداف البحث عن طريق المكتبة والمقابلات الشخصية.

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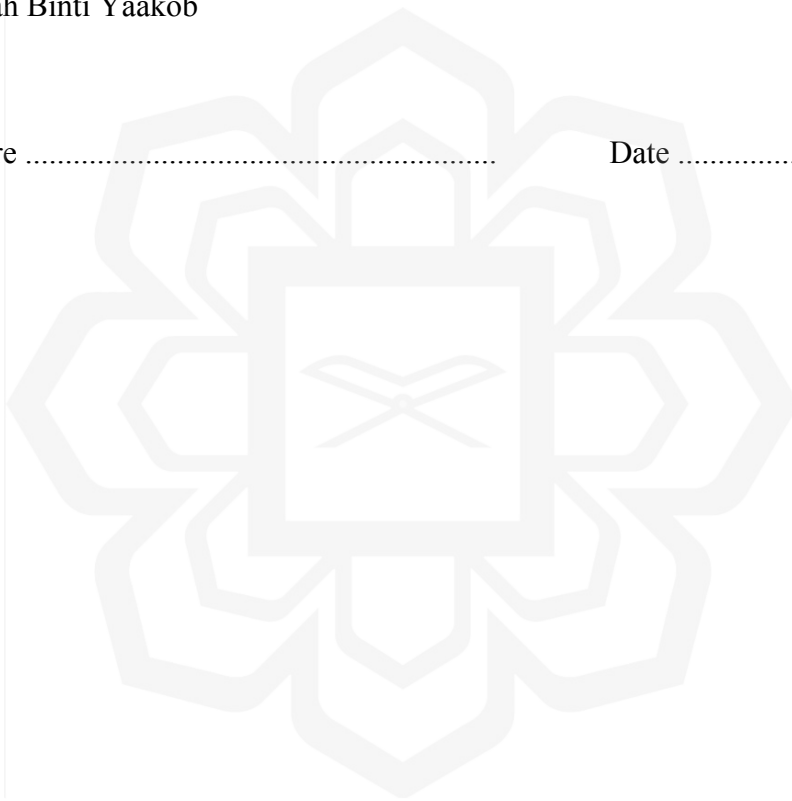
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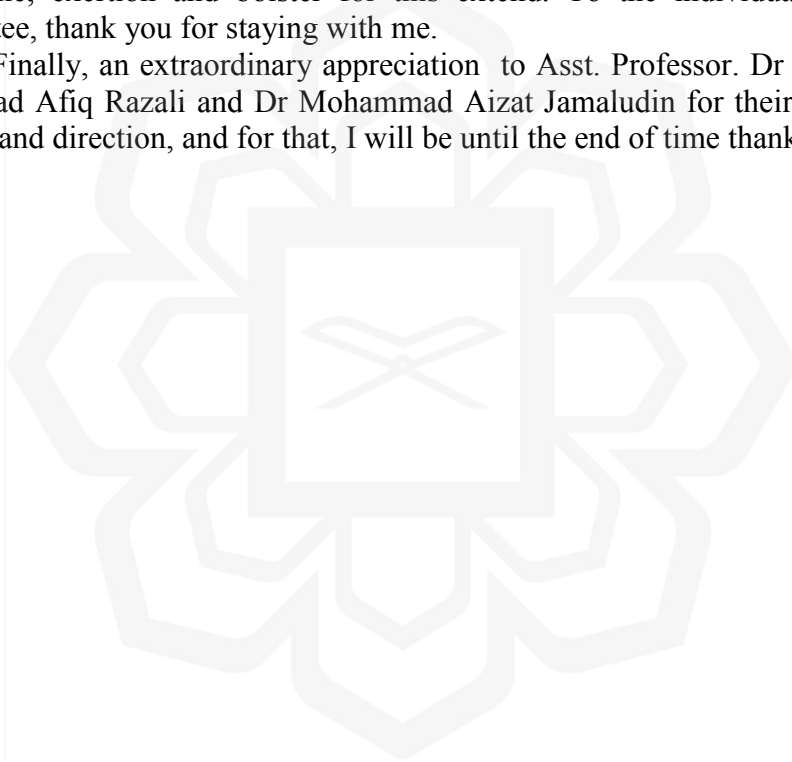
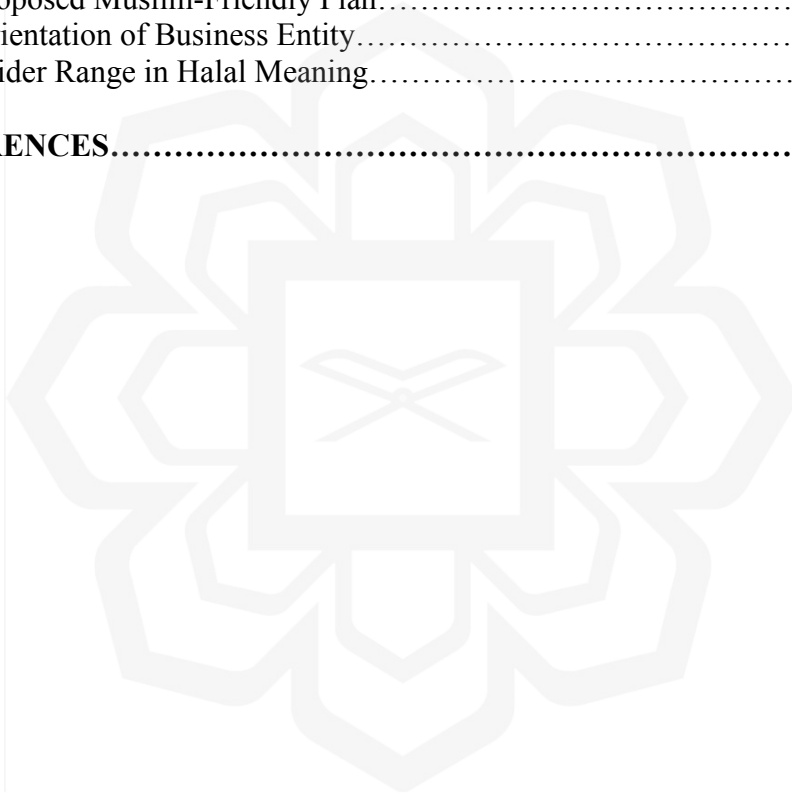


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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Marketing is the backbone of any business operation. The achievement of key performance index (KPI) is based on the success of marketing. In global economy trends today, industry 4.0 marketing shows an important role to enhance the business opportunity (Vassileva, B. ,2017). (Goldsmith, 2004) stated current and future trends in marketing study are based on four main topics that are globalization, technology, personalization, and integration in the business world. There are three areas in marketing which are marketing management, marketing research, and marketing theory (Day & Wensley, 1983). The main arguments are the effects of globalization, technology, and non-free personalities, but they interact to influence the way marketing will be practiced and taught within the next decade. The scenario of marketing business basically can be approved in two type practices that are single level marketing (trading) and pyramid system (Frambach & Schillewaert, 2002). Multi-level marketing stems from a direct sales business that has been operating since 1920. According to a study by Prof. Madya Dr. Mohamad Fazli Sabri (UPM) Generally Multi level marketing has three types of marketing plans, namely Multi-Level Marketing Plan, Single Level Plan and Mail Marketing (Mail Oder). These three types of markets are subject to the Direct Sales Act and the Anti-Pyramid Scheme Act 1993 (AJLSAP 1993).

In Malaysia, Multi-Level Marketing (referred to as MLM) is one of the industries rapidly increasing the economy. However, this MLM business is confused regarding halal or illegal income. Thus, the Islamic Religious Department of Malaysia (JAKIM) has researched and developed a comprehensive shariah marketing system for the company. The Islamic marketing system is based on the principle that it is hoped to make this industry better with the implementation of Islamic marketing according to shariah. However, for the implementation of the Islamic marketing MLM company is still unsustainable and underdeveloped because it still lacks or does not understand the benefits of implementing a shariah-compliant Islamic marketing system (Ahmed Kristal & Pagell, 2014). Besides, many MLM company in Malaysia may be a scam and practice hit and run concept even though MLM rule and guideline was established (Harden, 1987). In the year 2017 total of companies which applied license under sales 1993 in record are around 1501 to 1545 companies, that are doing health products, food, cosmetic, and pharmaceutical (Kiaw & De Run, 2007).

Basically, the application of conventional marketing is based on basic marketing strategy which using 4P's Model (Product, Price, Place and People).

Multi-Level Marketing with Shariah compliant should have the responsibility to fulfill Shariah guideline (Alserhan, 2017). Principally, lack of awareness in MLM due to less of information on the operation of companies. For example, the case of Malaysia Man Telo and money laundering activities in MLM business. These cases showed the marketing methods they used in MLM are traditional, which means one-to-one approach, online marketing and systematic data sets (Shaw, Michael *et al* 2001). All datum obtained is controlled by a computerized system. Man Telo conspire may be a form of extortion in which conviction within the victory of a non-

existent enterprise is cultivated by the installment of fast returns to the primary speculators from cash contributed by afterward financial specialists, specifically cash collection and guarantees to pay twofold inside 90 days by obtaining remote postal coupons (Aladdin Suleiman Shah, 2017). From (W Chen, Z Zhang, ECH Ngai, P Zheng, Y Zhou (April 2018) also stated about Ponzi scheme is a scam that make a huge amount of money on Blockchain, which has a very negative impact on the Multi-Level Marketing business. Investment was successful for the early birds but failed and unable to pay to later investors.

Supposedly, a company is responsible to understand the customers' needs, and demands for competitive advantage in the halal marketing Islamic compliant (Bohari & Fuad, 2017). The customer will support the company to maintain the value and satisfied customers will design the future market offered based on customer needs. Halal marketing can offer assistance company to work and survive in this complex, changing, and turbulent environment. Fundamentally, the most objective of promoting is to preserve client fulfillment and create reasonable profit to the company (Shamsudin & Rahman, 2014). However, the marketing process must be follow syariah compliant guideline, that is inline with Islamic principles (Bayu Al Rochmanto November 2014) declared about weaknesses and lack of knowledge in halal marketing guidelines in correct information cannot be sustained and are the causes of collapse and loss in the business. Just like other aspects of life, Islam promotes halal in everything. It provides guidelines on how businesses need to be promoted in accordance with ethical codes and ethics of Islam. So, the effect of halal marketing increases the speed, and the accuracy of marketing choices, and the amount of data utilized. It asks the conventional marketing to consolidate Shariah compliance into

marketing activities. With the increase of the knowledge of stakeholders on Islamic marketing, and it can be practiced in business development, and it establishes more qualified commission and enhances the profitability of the company according to Shariah (Tameme & Asutay (2012).

1.2 BACKGROUND OF THE STUDY

1.2.1 International

Multi-Level Marketing has begun to grow in Western, countries, especially in America and is considered as one of the strategies that are important in marketing. Because MLM is gaining pace in today's business system, this thesis will shed light on the Islamic perspective of MLM and will then evaluate how far the MLM system with is allowed by Islamic law.

Generally, companies involved in Multi-Level Marketing (MLM) marketing are operating for socioeconomic development (Choudhary & Kamal, 2013). Opinion of scholar Woll & Jacquot (2010), these businesses come from a variety of backgrounds or professions, such as housewives, nurses, doctors, students, lecturers, private workers, and more, some distributors and traders are professionals, who have achieved great success with various bonuses and revenues. But not least, some failed and then resigned as distributors, either because of a lack of commitment to running this business or unable to cope with the MLM business life (Staw, Sandelands & Dutton, 1981).

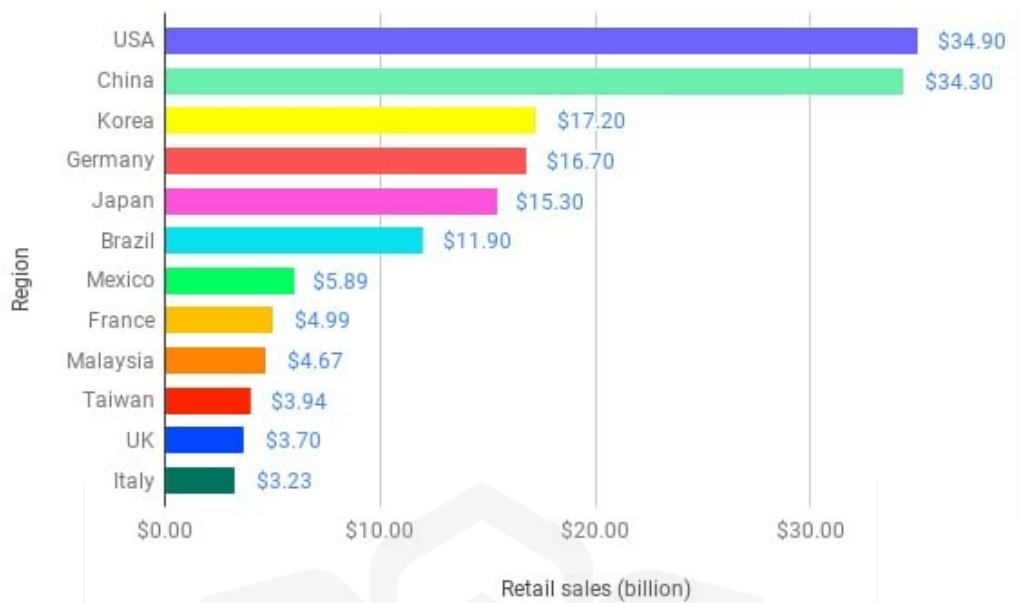


Figure 1.1 : International Statistic Multi-Level Marketing
 Source: (Nikhil Ravindran, 30 August 2019)

From Scholar Nikhil Ravindran (July 2019), 1.7% income development shows the impact of coordinate offering within the worldwide showcase. Merchants or organizations can use this opportunity to set up viable item offering. Coordinate offering industry has made worldwide deals of around \$189 billion in 2017 and distributors have earned \$76 billion as commission. Distributors earned \$208 million per day as commission during this time period. Since 2009, network marketing companies generated about \$1.5 trillion dollars in sales. Distributors earned \$600 billion as commissions since 2009. In 2017, USA and China holds the highest revenue share in the direct selling industry with 34.9 and 34.3 billion USD respectively (Maronna, Martin, Yohai & Salibián-Barrera 2019). Consumers are the backbone and determinant of a company's business success, they are the ones buying, using items, and services (Hultink, Hart, Robben & Griffin (2003). According to (Longman

Dictionary of Contemporary English) understanding consumer behavior is the process of buying.

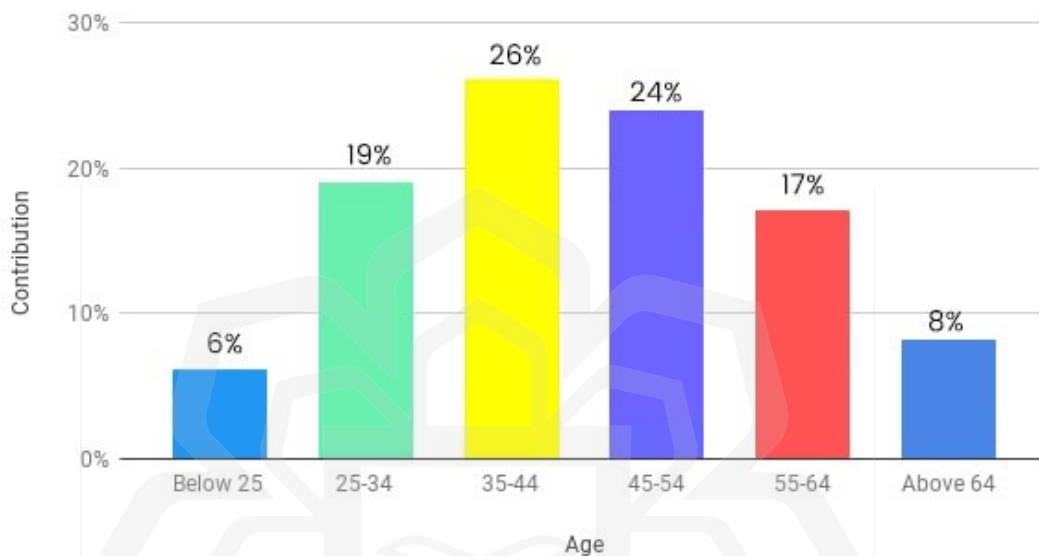


Figure 1.2: Consumer Contribution in Multi-Level Marketing
Source: (Nikhil Ravindran 30 August 2019)

Consumer and factors that influence their buying behavior are likely to benefit the most from any competing business. Gaining consumer interest and understanding of the consumer causes the company to issue large sumes of money to reach that level of loyalty. To indentify the key perceptions and factors influencing customer behavior towards their multi-level marketing companies and items, so that, marketers can adjust and enhance their showcasing campaigns and promoting procedures to reach consumers more successfully. Figure 1.2 from scholar (Nikhil Ravindran 2019) a commitment of approximately 26% comes from the 35-44 age gather and 24% from the 45-54 age bunch. Around 75% of the customer/direct dealers are ladies and fair 25% are men. Range of consumer

contribution between age 35 to 44 years old. This range mostly all of them already have family. Most of them have responsibility that make this range of age contribute more than other range of ages.

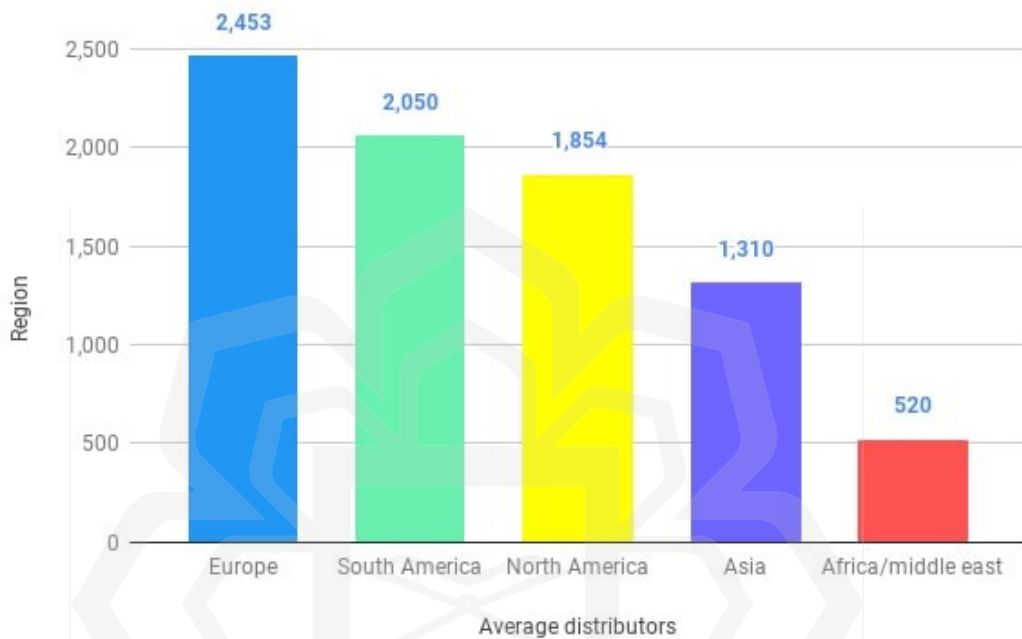


Figure 1.3 : Distributor Statistics
Source: (Nikhil Ravindran 30 August 2019)

In 2017, record-breaking measurements has been seen within the industry with 116.7 million merchants. Referring to the overall statistics of international MLM business, it is clear that MLM business is very helpful in the rapid growth of ecology. MLM business helps provide opportunities and career opportunities.

1.2.2 Malaysia

In the MLM business study there is no official history documented when starting the MLM business. Dates back to the 1920s while some say it dates back to the 1930s and 1940s with the introduction of the Nutritive (California Perfume Company) later

known as “SLM.” According to sources, MLM was founded around the 1940s by Professor Carl Rehnborg of the University of Chicago. She is also the founder of Nutritive by selling her first Nutritive vitamin and supplement products. The gradual sales method introduced benefits the seller through (1) the proceeds of the sale of supplemental programs to consumers (2) a discounted form of the total number of products successfully sold by the member (distributor). This method has attracted two business people, Rich DeVos and Jay Van Andel, who were the founders of the “Amway Corporation” during the 1950s.

The start of the MLM business in Malaysia was in the early 1970s with the presence of foreign companies such as the United States and Taiwan that introduced the concept of business to the Malaysian community. Since then MLM business has grown and gained popularity among consumers in Malaysia. In fact, making MLM business is one of the main incomes as well as the side income. But the existence of the MLM business has given birth to many millionairesses in Malaysia.

Table 1.1 Statistics Multi-Level Marketing

5.3 JUALAN LANGSUNG

5.3.1 BILANGAN LESEN JUALAN LANGSUNG YANG SAH TAHUN 2018

PELAN PEMASARAN	MLM	SLM	MO	SL/MO	JUMLAH
2010	390	113	25	17	545
2011	399	117	23	17	556
2012	385	98	22	17	522
2013	324	85	22	17	448
2014	309	75	25	15	424
2015	247	60	22	12	341
2016	252	46	18	9	325
2017	288	55	16	8	367
2018 (sehingga 30 Nov 2018)	325	54	17	7	403

Sumber: Bahagian Perdagangan Dalam Negeri
 Data dikemaskini sehingga 31 Oktober 2018
 Nota:
 MLM - Multi Level Marketing (Berbilang Tingkat)
 SLM - Single Level Marketing (Satu Tingkat)
 MO - Mail Order (Pesanan Pos)
 SL/MO - Single Level, Mail Order

STATISTIK UTAMA KPDNHEP NOVEMBER 2018

1.2.3 Evolution of Marketing

A pyramid scheme model is a steadfast venture trick dependent on an arranged system advertising arrangement. A fraudulent business model for the most part doesn't include the offer of items. Or maybe, it depends on the consistent convergence of extra speculators who arrive at the head of the pyramid. This implies staggered showcasing plans are not named fraudulent business models and are not really fake.

There are opinions (Albaum, G., & Peterson, R. A. (2011) that the Pyramid Schemes and MLM (Network Marketing) are the same. There are even other's opinions to suggest there is a difference between the two. To put it bluntly, the pyramid structure in a marketing plan is not the same between the pyramides scheme

and the MLM business. If the shape of the pyramid became a measuring stick whether a business is legal or not, many businesses would have become illegal and had to close to down.

Generally, a pyramid is a fraudulent scheme for money that involves a payment of money with the primary purpose of getting more people into the scheme without having to sell any products or services.



Figure 1.4: Fraud occurred

1.3 STATEMENT OF THE PROBLEM

The most concerning issue with MLM's is that most merchants don't make a benefit. Truth be told, a larger part wind up losing cash. As indicated by the FTC, an astonishing 99% of selected dealers lose cash. MLM is a modern business but MLM company generate money and sell product on the basis of Islamic perspective. MLM and Islamic marketing have beautiful relation among them.

It is observed that in Malaysia, there are lots of cases of fraudulent in MLM. 95% of cases where people are investing, but are not given the proper return (Shyam Sundar, 2017). Cases where, people who were given money, eloped with the money entrusted, cases of people are misusing the employees and many more. In other cases,

the structure of the Multi-Level Marketing itself is improper that it does not benefit the down line or the sales people (Brett & Kate McKay, 2018). Rather, it benefited the company only. In other cases, the company does not provide a good training system or the product produced is faulty.

There is a case, where the early distributors were operating on a conventional form of marketing plan. However, after sometimes, the company introducing the plan changed to another plan of system which is more problematic (Samantha Nielson, 2016). This causes frustration to many of its distributors which they had decided to leave the company.

1.4 PURPOSE OF THE STUDY

This study attempts to see whether MLM industry is able to be directed to the Islamic Business with Islamic elements, so that, Muslim business industry players in particular can utilize it as a good means to live and make sustenance in living. Therefore, the problems identified in MLM are to be solved, to create a better type of MLM that can be used by everyone to make better lives and good medium of living, which is blessed by Allah SWT.

1.5 RESEARCH OBJECTIVES

The think about points to attain the taking after targets:

- 1) To recognize the problems in different MLM companies
- 2) To list down the elements of a halal Multi-Level Marketing company
- 3) To compare halal marketing with conventional marketing

4) To device how an ideal halal Multi-Level Marketing company should operate

1.6 RESEARCH QUESTIONS

- 1) What are the common problems in a Multi-Level Marketing company?
- 2) What should be the elements in a halal / Multi-Level Marketing company?
- 3) What are the differences between halal marketing and conventional ones?
- 4) How to materialize the concept of halal Multi-Level Marketing in the real world?

a. Different Types of MLM Compensation Plans

In a multi-level showcasing trade, there are a few MLM stipend plans that exists. Each MLM arrange has its exceptionally claim points of interest and drawbacks. Some time recently choosing the arrange for your commerce, it is imperative to know ins and outs of each stipend plans. So, one ought to know the pros and cons of each plan and the discussion on the suitability of the plan.

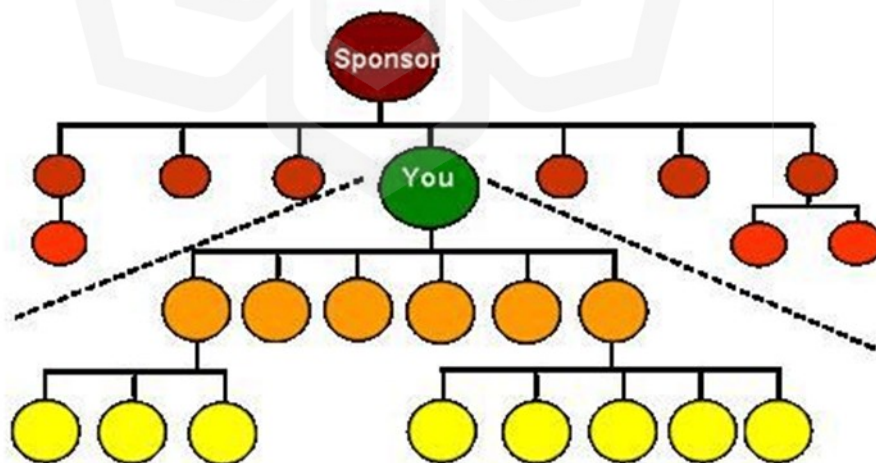


Figure 1.5 Traditional Compensation Plan