

Success in Network Marketing: A Case Study

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ABSTRACT: *This real world case examines the career choices of a serial entrepreneur and the decision whether or not to enter into a network marketing organization. All names have been disguised.*

INTRODUCTION

Matthew Ashford had been working all morning in front of his home office computer. Elaine, his wife, had taken their two young children to school and given Matthew a chance to catch up on things in the quiet calmness that descends on a house when its noisiest occupants are away for a few hours. Matthew sat at the computer wearing his NFL sweatshirt, blue jeans, and old white tube socks with a cup of coffee at his side. He had not taken the time to shave that morning because he was behind on his used car advertising business work. Matthew thought to himself, “Finally, I have a free morning to really get some work done.” Then, in the midst of his busyness, the phone rang. Matthew thought he should just let the answer machine pick up the call, but he changed his mind and answered the phone.

“Hi, Matthew. This is Miriam. I have something that may be wonderful for you,” said Miriam, Matthew’s old friend from his days working in the casinos.

“Hey, Miriam. What do you have that might be so wonderful for me?” questioned Matthew.

“I have some juice for you. I know that you and Elaine are interested in healthy food and drink. You told me about the three juicers you have burned up in the past few years at about \$100 each. You complained about having to buy the produce, cut it up, and then clean-up afterwards. Well, I have something better and it has been great for my mother and me,” replied Miriam. “Will you and Elaine come to a meeting tomorrow night at the community center?”

“Okay, Miriam, but what’s the catch?” asked Matthew.

“There is no catch, Matthew. We are having a meeting with someone giving a presentation for this juice in a couple of days and I would like for you to be there. I will e-mail the directions for you to get to the meeting.”

“Okay, Miriam. We will give it a try, but I don’t expect much,” replied Matthew skeptically.

In a few minutes, Miriam’s e-mail arrived. Matthew opened it and read that the name of the company was Life Juice. “So, I automatically cut and pasted Life Juice into Google to see what I was getting into. I did not want to waste my time, but the more I saw of Life Juice, the more it made sense to me. The videos showed a really easy, convenient way to get fruit into your body instead of buying produce and using mixers,” remembered Matthew.

SERIAL ENTREPRENEUR

You could call Matthew a creative genius because he loved to invent things, to start new businesses, and to try to make money in unusual ways. For instance, when he was 12 years-old Matthew’s step-dad built a rabbit trap. Matthew recalled, “I had some blue prints drawn up for the trap. Then I put an ad in National

Rifleman Magazine and advertised building your own trap for the cost of the wood, which was about \$8, and \$3 for my blueprints, rather than paying \$40 or \$50. I received about \$77 and paid about \$75 for the ad. I think in the end I made about \$2 after paying for the ad. I was always interested in entrepreneurial activities while growing up.”

In his high school and college days, Matthew later wrote some screen plays and poetry as well. Matthew possesses boundless energy amid a certain amount of restlessness. School did not hold a great amount of interest for him. “I understand that they do not pay you more for graduating with A’s than C’s,” he claimed. Matthew finished high school and several years of college work before leaving to pursue more lucrative employment in the casinos on the coast of his home state. “I went to work at the Great Casino in Ocean City when they opened in 1993 in the hard count department. We emptied out all the coins from the slot machines about 3:00 in the morning and counted them. Then, I moved to Treasure Island Casino in City Beach and became a dealer for Black Jack, Craps, and Roulette. During this time, I invented several table games and obtained some patents and copyrights. One was King’s Ransom Roulette, which was a hybrid of roulette, poker, and craps. You bet on a poker hand of cards on a roulette table with the interaction of dice. It was supposed to be produced in December 2005, but the hurricane washed all of that out in August. I decided that the inventions were not going to pan out in the long-run.”

Real Estate and Used Cars

After nine years working in the casinos, Matthew branched out into a new line of work – real estate. He studied for and obtained a real estate license and then started his own business. Using his knowledge of the local area, Matthew and his partners bought older homes, fixed them up, and re-sold them at a profit. In five years, the company refurbished 120 properties.

Matthew decided to buy a used van and paint a sign on it, saying “We buy houses.” Then, drive the van around as advertising, but he had difficulty finding a van in the local area. In the course of his search, he discovered that there were about two hundred used car dealers in the area, but only about fifteen of them were on-line. The major car dealers were on-line, but not the smaller Mom-and-Pop dealers with 25 or 50 cars. They were not on Auto-Trader and Cars.com. Looking further into the situation, Matthew found that the independent car dealers did not know how to advertise on-line. As an entrepreneur, he recognized the opportunity and started a website called Localcars.com.

Matthew drew a connection between the real estate business and the used car industry. A common practice in the real estate industry is the use of a multiple listing service (MLS) in which all the available properties for sale in a given area are listed together in one book or catalog. So, Matthew wanted to get all the local car dealers on-line like an MLS from real estate. He approached one of the largest car dealerships in this area and met with the used car manager. This manager reported that it took 25 hours per week to get pictures of the cars uploaded onto the site. Matthew recognized another opportunity to get the right software to reduce this amount of time. So, he started another business, which he named Auto On-line Service, in which he sent service technicians out to the car dealer’s lot to take photographs of the cars and the price stickers in the windows and record the VIN number of the car. Matthew could upload this information into his computer with the software system automatically.

Thus, Auto On-line Service provided for a great need in the market. Matthew expanded rapidly, taking on about seventy dealerships over a four-state area in just a few years. Matthew started with two service technicians, but now he employs twelve technicians who work over longer periods of time and greater distances. Although the on-line car business grew rapidly, Matthew kept working on the real estate as well. Additionally, Matthew had another business idea, “I was also in the midst of creating an auto classified newspaper publication. I had all the information, but I needed to print it out in newspaper form

and obtain advertising support.” Between the real estate company and the multiple on-line used car businesses, Matthew fits the classical definition of a serial entrepreneur, an individual who starts and manages several businesses either in succession or all at the same time.

Entrepreneurs

An entrepreneur is an individual who starts something new in business under the conditions of risk and uncertainty. An entrepreneur may start a new company, develop a new product, or extend a company or product into a new area. The term “entrepreneur” comes from the French, meaning to act as a “go-between” or “between-taker” (Hisrich & Peters, 2002). The Irish economist Richard Cantillon (c.1680-1734) asserted that entrepreneurs differ from other economic actors because of the uncertain return they earn from buying at a fixed price and selling at an unknown price determined by the market system (Jennings, 1994). Modern research shows that entrepreneurs possess some common characteristics, including the desire to take the initiative, preference for moderate risk, confidence in their ability, perseverance, high levels of energy, competitiveness, future orientation, organizing skill, need for achievement, tolerance of ambiguity, and flexibility (Scarborough, Wilson, & Zimmerer, 2009).

The Meeting

“The more I looked at Life Juice, the more curious I became. The other healthy things that my wife, Elaine, used to bring into our home tasted horrible. I could not consistently put those health products into my body because they tasted so bad. When I went to that first meeting, I wanted to see what it tasted like,” recalled Matthew.

The community center was only a ten minute drive from their home for Matthew and Elaine. Matthew thought to himself as he drove, “I have known Miriam for nine or ten years and she is very discrete and discerning. This product must be credible for her to recommend it to me. Any way, we don’t have anything else to do tonight.”

The Ashfords arrived at the community center, where they found a group of about fifty people at the meeting. Apparently, this was a special event because a high producer, a gentleman who earned a seven-figure income from Life Juice, was in town to address the meeting. This speaker had been in the business from the beginning of the company three years before. The meeting went on for two hours, but it was entertaining, so Matthew and Elaine did not mind the time. Life Juice was very new, without a great deal of evidence to substantiate any product claims. In this pioneering stage, the speaker showed a great belief in the product. In addition to the speaker, who was quite dynamic, the Life Juice people showed several videos and then had a product tasting. White-gloved waiters came out with glass trays filled with sparkling glasses of Life Juice and offered the fruit drink to everyone who had not tried the product before.

When a waiter approached the Ashfords, Matthew and Elaine both took a glass of Life Juice. Matthew gingerly brought the glass up to his lips and took a sip of the juice. Surprisingly, “My wife and I both really liked the taste of it. With my entrepreneurial background, the big thing I got from the meeting was the good taste of the product,” Matthew recalled. “I was curious about the taste. I understood that just four ounces of the product is equivalent to thirteen servings of fruit, but I wanted to see how it would taste. Elaine was interested because of the possible health benefits.”

The Life Juice speaker was careful not to make wild or unsubstantiated claims concerning the health benefits of the product. He said that Life Juice was a fruit juice, not a drug or medicine. The speaker explained that “Life Juice is actually a whole food. If you open a bottle and leave it out on the counter,

the juice will expire or go bad in about a week. If you open a bottle and leave it in the refrigerator, it will last about one month. Life Juice has a shelf life of about a year if you leave it in a cool, dry place.”

After the meeting, Miriam gave the Ashfords a bottle of Life Juice and explained, “The recommended daily amount of Life Juice is two ounces in the morning and two ounces in the evening.”

“Thanks, Miriam. I think that this will be a great business for Elaine,” said Matthew. So, Matthew and Elaine started drinking the juice.

Life Juice and Network Marketing

Life Juice is a blend of nineteen different fruits, headlined by the acai berry (pronounced “ah-sigh-ee”). This fruit is found in the tropical rain forests of Brazil, where it has been prized for centuries for its health-promoting properties. The small black-purple berries grow in clusters on the acai palm. The berries grow at the top of the palm trees and are harvested by Brazilian natives, who are skilled in climbing as high as thirty meters to reach them. According to company literature, the acai berry is very delicate and must be processed within twenty-four hours of harvesting in order to prevent a loss of nutrients. Company sources also state that the phytonutrients in the acai berries combine with antioxidants to inhibit harmful compounds in the body, known as free radicals. The company uses a freeze-drying process to accomplish this result. Among the nineteen fruits in Life Juice are apricot, grape, passion fruit, prune, apple, and cranberry.

Life Juice, a direct marketer to consumers, uses a complicated network or multi-level marketing approach to sell its product. In this form of business, the company compensates individuals for selling its product and pays sales commissions to individuals on the sales of others that those individuals have introduced to the company. For an initial fee under \$50, an individual may become a Life Juice distributor. In order to maintain full distributor status and enjoy full commission earnings, the person must also purchase at least eight bottles of Life Juice per month. Life juice sells for around \$40 per bottle, which is a premium, but affordable price for most consumers. Network marketing is a legal and accepted practice in all fifty states in the U.S. and is distinguished from pyramiding. In pyramiding, which is not legal in most U.S. states, individuals receive commissions from recruiting new members and obtaining sign-up fees (Wikipedia, 2009). Network marketing companies must insure that individuals receive commissions only from the sales of others, not sign-up fees, to remain legitimate. Pyramid or Ponzi schemes are illegal in the United States.

Keys to Success in Network Marketing

According to network marketing expert Steve Worth, “There are two different phases when an individual gets involved in network marketing. The first phase is what I call the adrenaline phase because you are really excited about the opportunity. No one does network marketing unless they really believe in the product. At first, you believe in the product, but you must also get your belief in doing the business (the network marketing). The problem is that to get to the second phase, which is “believing in the business,” there is little training. There is little training on how to be a network marketer. People base their business on the skills that they already have. Life Juice is a simple product and a simple business – it is fruit juice. The problem is that you may not have the communication skills or the relationship skills or the leadership skills to lead your team to hit the higher ranks and earn more money.”

“To illustrate what I mean, imagine a circle with you in the center,” continues Steve Worth. “This is your comfort zone. In any business, you can grow your business to the edge of your comfort zone, whether the business is real estate or automobile advertising or Life Juice. Surrounding the circle on the outside is what I call the moat of fear, blame, and excuses. It is hard to get out of your comfort zone to be

productive and to see progress. You must build a bridge over the moat of fear. When people are new to network marketing, they are not aware of the moat of fear. They have not heard “no” yet and do not have any fear. New people may not have the skill-set; they may not know how to approach people or how to make contacts and then inform people about Life Juice. When new people start hearing “no,” they question themselves and wonder if they are doing things right. Then, they scurry back across their bridge, back into their comfort zone and away from the moat of fear. They huddle up like a football team and then try another play. The new people may try a different route and try a different approach with another bridge. Then, they hear “no” again several times. Depending on how excited you are and how much those “no’s” affect you, you may not try again. It is something like a young man asking a girl for a date in high school. If you do not go out and try, you will not get better at the activity. The problem is that people try network marketing without getting training.”

One Week Later

Matthew’s mother lives nearby, so he naturally turned to her to try Life Juice. “Then, I e-mailed my mother and said, ‘I have some juice for you.’ Her initial e-mail reply started out, ‘Now, Matthew...’”

“At first I thought, this is another one of Matthew’s projects,” recalled Marie Turner, Matthew’s mother. “He designed and built a casino game, like roulette but without the wheel and much more exciting. He also has his real estate license and built a company called Auto On-line Service that advertises used cars over the internet for car dealerships. Mind you he’s done well in each of these. But I thought, ‘What’s Matthew gotten himself into now?’”

Marie accepted the Life Juice from Matthew, tried it, and experienced immediate results, “After drinking about three ounces of the juice Tuesday night, when I woke up Wednesday morning I could see immediate improvement. First, I could move my right shoulder without using my left hand, which I had not done for years. I sat on the edge of the bed and thought, ‘What other surprises are in store?’ I stood up and walked without cringing. In the mornings, it always hurt me to walk, but during the day it would ease up. The next big surprise was the shower. I got in easily, and thought, ‘Why not see if I can wash my feet?’ You won’t realize this until you are older, but if you can’t wash your feet in the shower, you have to fill a dishpan full of water, sit in a chair and wash them, and then clean everything up. Well, I could wash my feet in the shower! I almost started to cry. Instead, I started thanking God for this juice and now I had some hope of getting better and maybe living normally. As soon as I got dressed, I called Matthew to tell him.”

MATTHEW AND ELAINE’S DECISION

That same morning, Matthew and Elaine sat down together at the glass top table in their breakfast nook next to the kitchen. The children had been safely delivered to school for the day, so the couple had a few minutes to reason together. “Elaine, I think that Life Juice may not work for me because I just do not have the time. I have the real estate business and the on-line car businesses going and all my time is taken by those businesses,” began Matthew.

“I know that you are really busy, honey. I wish you could spend more time with the children and take some of the child care work load off of me. On the other hand, we have taken this juice for a week now and I have to admit that I am starting to sleep better and feel better,” mused Elaine.

“Yes, I am starting to feel better, too. I guess that the juice does help. I told you about my mother’s experience. She is really feeling better and in just one week’s time,” said Matthew. “Maybe, I should really go for Life Juice.”

“Honey, we love your mother, but you know that sometimes she gets a little overly excited about new things,” responded Elaine.

“Yes, she does get carried away at times,” admitted Matthew. “The entrepreneur in me says there has to be a market of people like me who are not getting enough nutrition in their daily diet. With Life Juice, they can get that nutrition in a convenient form that tastes good.”

“The juice does taste pretty good to me. Also, I have researched Life Juice through the Internet and the product and the company seem good to me,” replied Elaine. “Maybe, we should both try it.”

“Did you know that ninety percent of network marketing companies fail within the first two years of operation?” asked Matthew. “I have discovered this from several different sources. Life Juice is just over the two year mark, into the third year.”

“Let’s say you did go full-time with Life Juice. You are such an entrepreneur, an independent person. Would you be able to take orders from other people like that?” questioned Elaine. “You would have to follow their rules and do whatever they tell you to do.”

“Well, they say, it is like owning your own business. Nobody tells you what to do or where to go or when to do things,” Matthew stammered out.

“I think that the higher up you go in a network marketing company, the more they watch you and the more they demand from you,” said Elaine. “You will be jumping through hoops before you know it. Also, what about security? Do you think that this company is safe and secure? Can we depend on it?”

“Elaine, you know as well as I do that the market is wide open in the four states around us. Nobody is doing anything with Life Juice around here and few people had even heard of it in this area,” stated Matthew. “I think that the business model is sound. I researched the top management of the company and found that they are high quality people. They were not like the stereotype of network marketing people. They are not used car salesmen.”

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