On Ethicality of Multi-level Marketing Schemes on Wechat Platform in Mainland China

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by

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Abstract

Multi-level marketing schemes (MLMs) is one of the fastest growing types of business in the world. Especially in China, with the development of e-commerce and social network application, increasingly people start doing business for MLM companies in social network platform. However, there are few academic articles have been written about the ethicality of MLMs on social media application in China. What surprising is, even in China, the ethical issue of MLMs on Wechat is controversial. Among the ordinary person, MLMs sometimes have been accused of being pyramid schemes, which is illegal in China. Besides, many people complain that some of their friends sell products on Wechat, which make them uncomfortable and sometimes be pressured to buy it. This research explores the nature of MLMs and the ethical issues of it. It argues that MLMs on Wechat in China posed some unique ethical issues and attempts to search for the solutions for them.

Key-words
MLMs, Business ethics, Wechat, Wechat marketing, Mainland China
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Definitions and Abbreviation

**Wechat**: literally: "micro-message", is a Chinese multi-purpose messaging, social media and mobile payment app, developed by Tencent.

**Pyramid schemes**: is a business model that recruits members via a promise of payments or services for enrolling others into the scheme, rather than supplying products or services.

**MLMs** – Multi-level marketing schemes
**B2B**- Business to Business
**B2C**- Business to consumer
**E-commerce**- Electronic commerce
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1 Introduction and background

1.1 Research background

Introduced by Amway in the 1950s in the USA, MLMs has become one of the most popular business types in the world. (Chaudhari J, Mistry S H. 2010) With the vast spreading in the rest of world, it attracted attention from not only society but also the governments because of its unique characteristics.

Since 2004, more than 75% retail goods and services which sold through direct selling channels were from MLMs (Direct Selling Association 2004). Moreover, MLMs has created several business legend companies such as Amway, Shaklee, Mary Kay and so on (Sparks J R, Schenk J A. 2006). However, according to Chaudhari J and Mistry S H. (2010), the studies have shown that consumers often have a negative perception of Multi-level marketing companies or organizations. In their opinion, this negative perception mainly comes from the aggressive selling method, exaggerations of facts in the advertisement, marketing around friends and relatives, and unethical way of exploiting relationships.

In case of China, the culture of "Guanxi", which means the interpersonal relationships played an important role in the development and expansion of network business. (Su C, Littlefield J E. 2001) Nowadays, the biggest "Guanxi" network in China is on Wechat. Developed by the Tencent Company in China, Wechat is well known as a mobile messenger application which connects with people the users knew. The active users in Wechat increased from 2.8 million in 2012 to 963 million in 2017, and more than 900 million users check the app every day. (Statista, 2018) Nowadays, Wechat is much more than a messenger application, the functions such as "moments" "Wechat-pay" "Voice& video call" "Group chat" "adding people nearby" enable it to become a multi-functional tool. Especially the business potential of Wechat has attracted great attention. There is an opinion that Wechat is the most significant competitor of Chinese e-commerce giant Alibaba shortly. (Li, Zhizhong, 2015).

Regarding business ethics, the evaluation of ethical or unethical corporate behaviour seems to change with the times. (Peterson R A, Albaum G. 2007) With the development of the Internet, the field of ethicality towards MLMs On Wechat is needed to be researched. There is an existed ethics research about how culture might affect individual ethical attitudes in China, which is one of the fastest growing markets and probably the next economic superpower. (von Weltzien Hoivik, 2007; Xiao H, Ma Z. 2015) However, most of the business ethics studies were dealing with Hongkong, Taiwan, and Singapore instead of mainland China. (von Weltzien Hoivik, 2007; Lam and Shi, 2008) There are even fewer researchers have explored Chinese ethical issues related to MLMs on the social media applications such as Wechat. Therefore, this
research aims to bridge the gap with the research on the ethicality of Chinese MLMs on Wechat in mainland China.

Moreover, all kinds of MLMs are forbidden in China according to the law, but most of the direct-selling companies in China are operating as MLMs in fact. (Shunkit, 2012) For Wechat business, there is also no specific law could be applied. Therefore, the discussion of the ethicality of MLMs on Wechat could provide some suggestions for the legislation of MLMs and Wechat business in China in the future.

1.2 Structure
This thesis consists of 6 chapters.

The first chapter is introduction and background. Moreover, the research questions, objectives, scope and the delimitation of this thesis are introduced.

Followed is the literature review, in this chapter, the existing theoretical work which necessary to understand and analyse the ethicality of MLMs on Wechat is provided.

Chapter 3 is the methodology; it is a description of the research methodology used throughout the thesis. For instance, the data collection approach, the design of interview, as well as the credibility and limitations.

Chapter 4 is the case study. A Chinese MLMs organization is chosen as the case to explore the ethicality of MLMs on Wechat. Several interviews are conducted to get well know about this product and their business.

Chapter 5 is the finding and discussion, which sums up the discussion on the topic and explains the findings from the case analysis.

The last chapter is conclusion. In this chapter the researcher has summarized the results of this research and provided recommendations for the government, the distributors and the MLM organizations. Besides, it suggests the direction for the future research.

1.3 Research questions and aim
Using Wechat as the main platform, MLMs booming again in China. However, with the creation of enormous economic profit, it has brought some ethical issues as well. This research focuses on the ethicality of MLMs on Wechat.

This research aims to understand the ethical issues of the MLMs on Wechat in China. Moreover, it searches for the reasons of the popularity of MLMs on Wechat and its applicability
in western countries as well. Therefore, the research question of this thesis can be formulated in the following way: What are the ethical issues of the MLMs on Wechat in China?

The thesis intends to provide an insight to distributors who are doing business on Wechat for MLMs companies. Scholars and academic can also find valuable insights from this research in the field of MLMs, Wechat marketing and Business ethics.

1.4 Research Scope and Delimitation

This research focuses on mainland China, which excludes Hongkong, Macau and Taiwan. Since to some extent, the relationship between people, the education level and part of the culture are different between mainland China and those places, even though they share the same Chinese traditions. (Su C, Littlefield J E. 2001) Concerning business ethics, it has different framework and criteria in different time and countries. In this research, the researcher uses the basic business ethics framework in the world and combines with Chinese culture.

This research aims to find out the ethical issues of MLMs on Wechat, therefore, the cultural background and related value, legal framework are in the Chinese context.

Moreover, this thesis will analyze some legal issues based on the general laws or principles of MLMs in the world. For example, in the part of “Ethical issues of legal MLMs”, the general classification method of legal and illegal MLMs instead of Chinese’s is applied, since it is more helpful for the discussion and analysis.
2 Literature review

The literature review provides a deep review of the existing theory within the fields of MLMs, Wechat marketing and business ethics in China. It focuses on the nature of MLMs and the ethical issues of it, as well as the definition of Wechat marketing. Moreover, the legal issues of MLMs and Wechat business in China are analyzed. However, it is worth to note that the research on MLMs on Wechat is a quite new field, and there are not many kinds of research done yet about the ethicality discussion of MLMs on Wechat.

2.1 Business ethics

Alas (2006) has defined that ethics is a set of moral principles or values that govern a group of people. These principles and value distinguish right from wrong, and they also guild individual in their personal and professional decision-making. Regarding business ethics, we regard it as the study of business situations, activities and decisions where issues of right and wrong are addressed. (Crane A, Matten D., 2016)

It is not difficult to find that business ethics attracts increasingly attention. One of the reasons is: business ethics largely begins from where the laws ends. In the global environment, most of the business activities are beyond the national laws, the cross-national businesses have increasingly demand on business ethics. In the case of MLMs on Wechat, the legal framework is difficult to apply here since it is a new business type and the related laws has not been developed. (Crane A, Matten D., 2016)

2.2 Multi-level marketing

In the 1990s there are a great number of researches have been done on MLMs since some MLMs have been accused of being pyramid schemes, which were the number one type of Internet fraud in 1996. (Koehn D, 2001; National Consumers League, 1997)

According to Brian Bloch (1996), MLMs, which is also described as network marketing and multi-level direct selling (WFDSA, 2000), is a business type that the goods be sold through individual people instead of conventional distribution system, and the goods normally be sold to their friends, relatives, acquaintances and strangers. Bill and Dale defined MLMs as a distribution system for goods and services based on a network of clearly defined levels. (Merrilees B, Miller D., 1999) In some academic articles the distributors could also be a firm, corporation and other business entity except the individual. (Koehn D, 2001)

The reason why MLMs become so popular is that the commission comes from two channels: the direct sales the distributors (the participates of MLMs organization) made by themselves
and the sales made by their recruits. (Bloch, 1996) In a word, the distributors in this pyramid-like structure can always get money as the network expanding and the new recruits join in.

In China, MLMs is not the local business type and it has the different translation, as well as the definitions. For example, in the book of Network Marketing in Mainland China (Jeffery L., 2001), Jeffery defined MLMs as “Chuanxiao” which means pyramid schemes currently. Moreover, as the most important channel of direct selling, MLMs and all other forms of direct selling were banned in 1998 in China since it has raised some significant problems. (Jeffery L., 2001) For instance, the government cannot tax on the network selling and the MLMs organizations held large scale of training courses and meetings regularly. (Jeffery L., 2001) Till 2005 direct selling was divided from pyramid schemes in China and become a legal business type again, while the MLMs still be illegal in China according to the law.

This research uses the definition of MLMs from West since both the MLMs and the concept of business ethics were introduced from the western countries to China. Moreover, the definition of MLMs from west nations includes more types of MLMs business, both legal and illegal MLMs, which is essential for the ethicality discussion in this research.

2.2.1 MLMs and pyramid schemes
MLMs were usually accused of being pyramid schemes since they have the similar structure. However, they have significantly different characteristics such as the compensation structure, business objectives, participation process. The followed figure is summarized from the existing theory. (Coughlan A T, Grayson K., 1998; Peterson R A, Albaum G., 2007; Koehn D., 2001)
What should be noticed here is, although the MLMs encourage the distributors to recruit others to join the organization, this simple act could not be awarded in a legal MLMs company if the new members did not make any sales or purchase. In a word, recruiting is not allowed to be awarded. (Peterson R A, Albaum G., 2007)

In summary, pyramid schemes are illegal and unethical since they are:

1) Fraudulent, they usually promise a huge return with a small investment and cheat people with communication skills to attract them to join in the organization.

2) Not a sustainable business type, there must be no one left in the end.

3) Recruitment- centric rather than product-centric, which not the public interest.

4) Making profit for the high level of the pyramid or private through charging from the new participants.

5) The price of the product is unreasonably higher than its value or the market price.

2.2.2 Ethical issues of legal MLMs
MLMs is controversial without doubt. Since MLMs companies have the similar structure as pyramid schemes, they expand through recruiting new salespeople. This characteristic could easily drive the MLMs company to the unethical, recruitment- centric pyramid schemes. According to Koehn (2001), a legal MLMs should reach these requirements: 1) The company is
really doing the retail business; 2) The company has buy-back policies; 3) Reasonable fee to get the right of marketing the product. 4) Completely voluntary of purchasing and exiting.

However, as Crane A and Matten D. (2016) mentioned in their book, the scope of law and ethics overlap each other, but they are not equivalent. Figure 2 has shown the relationship between ethics and law when we discuss this problem. Therefore, legal MLMs could still be unethical. The grey area indicates the part of overlap of ethics and law, and the conflicts exist in this area as well.

![Figure 2: The relationship between ethics and law](image)

- The company really doing retail business

As the legal MLMs companies are product-centric, to be ethical, they must retail the products to the end-customers instead of selling only to the internal salespeople. When the internal consumption become the main sales, the salespeople might force their downline salespeople to purchase more to help themselves get to a higher level. Moreover, sometimes the price of MLMs product is much higher than the similar products in the general market, but the distributors have to buy it if they want to be “active” in the company. (Peterson R A, Albaum G., 2007)

- Inventory buyback policy

Inventory buyback is a necessary policy which can protect the salespeople when they cannot sell all the inventory. It also gives support to those who want to exit from the organization. However, some MLMs has this policy but never informed the distributors, or they make the refund process very complicated. Besides, if the company have no rules about the minimum buyback price and the upline distributors can set the price by themselves, it would hurt the downline distributors as well. According to Reese (1996, find the reference), the Industry standard of the buyback price is 90% of the original value.
• Reasonable upfront fee or sales materials

The MLMs could easily become recruitment-centric if their income mainly comes from the upfront fee of the new distributors. Moreover, some MLMs charge a high price for the training materials and force the new distributors purchasing it. What should be noticed here is, the criteria of a reasonable fee are not only about what return of this fee, but also related to all individual cases, and the evaluation standards are different in developed countries and lesser developed places. (Koehn D., 2009)

• Not exploit Relationship

According to Merrilees B& Miller D. (1999), the effectiveness drives of direct selling are different in China and Western country. Both product elements and relationship elements would affect the effectiveness of direct selling in China and Western nation, but relationship elements are more important in China. Moreover, some MLMs encourage the members to sell the product to their family members and friends or recruit them into the organization. This characteristic might lead to the exploitation of relationship. For example, the parents sell the products to their children, even their children do not need the product, or the product is not good, they would still buy it and never return it. To be ethical, the MLM organizations should warn their distributors to understand the negative effect of selling the product to their family and friends. (Koehn D., 2009)

2.3 Wechat marketing

As the result of the marriage between traditional e-business and social media networking, Wechat marketing has quickly become one of the most popular marketing means that companies choose in China. (Yang S, Chen S, Li B., 2016) In comparison with the traditional e-commerce, such as Taobao, Wechat marketing focus more on “people” since social network and communication were the main features of this application. (Tang M., 2014)

According to the existing research, "Guanxi" is a unique and important concept in mainland China, and it has great influence on business. (Su C, Littlefield J E., 2001) Wechat is the digital network of "guanxi", it is different with the other social media since it is open only for the connected friends. Which means, if you post a picture on Wecht, only your friends can see that, and if your friend shares this picture on her "moment", only her friends can see that. Wechat is a one-to-one and one-to-more information channel which is suitable for the MLMs perfectly. Moreover, the advanced features of Wechat provide the technology support for different types of business, especially MLMs, which expands through the development of people's network.

In summary, the features of Wechat can be divided into four parts.
Figure 3: The features of WeChat

Firstly, its basic function, communication, people can chat with their friends or chat in Wechat groups, the voice& video call are cost-free. With these functions, the distributors of MLMs can directly communicate with their customers and the potential downline distributors. They can send pictures or videos and the information of the product to them. Moreover, the group chat provided a platform for the internal communication of the MLMs organization, and they can do training, experience sharing, sales capability enabling in the group. (Li, Zhizhong. 2015)

Secondly, another important function of WeChat is SNS. About 61 percent of WeChat users access WeChat “Moments” every time they open the app, and 22.6 percent of WeChat users use the WeChat “Moments” feature often. (Statista, 2018) For the MLMs distributors, building business relationship and friend relationship at the same time is important. (Tang M., 2014) "Moments" has given them this opportunity. On the one hand, the distributors can post the detail and introduction of the product on moments which could show to all Wechat contacts. On the other hand, most Wechat users like to share their daily life on “Moments”, such as food, interesting news, movies or music. It is a good way to make friends with commenting customers’ updates and interacting with them. (Yang S, Chen S, Li B., 2016)

Thirdly, successful marketing will result to the transaction. Wechat provided the possibility to transfer money very conveniently with Wechat Pay. If the Wecht account has connected with the bankcard, it could also directly use the money in your bank card. (Li, Zhizhong. 2015)
Lastly, digital content is also an important function for the distributors. For example, the mini-programs could be used to collect the orders in Wechat Group. The game center of Wecht provide the interactivity of the friends, they can play the online game together. The QR code scanner can add new contacts easily and sometimes could be used as the discount promotion of the firms. An official account could be a bridge between the company and customers, the followers of the official account are the loyal customers usually. (Yang X, Sun S L, Lee R P., 2016)

2.4 Legal issues of MLMs and Wechat marketing in China

The development of MLMs in China has its unique characteristics. In 1998, all kinds of direct selling are forbidden in China since the negative impact of thousands of direct selling companies. Till 2005, China has issued “Direct selling management regulations” and divided direct selling from pyramid schemes. However, the regulations have formulated stringent requirements for direct sale: only the companies which have got the official permission from government can operate direct selling business. Besides, single-level marketing is legal, all MLM are illegal, even though 85% direct selling companies use the MLM model. (Shunkit, 2012)

Since the experts of direct selling industry and the direct selling companies have put significant effort into convincing the Chinese government to make MLM legal, from these years, the government has gradually acquiesced in the existence of MLMs. From Ding X’s opinion of view, make MLM legal is necessary and feasible in the near future in China. (Ding X., 2011)

Besides, in 2011 the Criminal Law of the People's Republic of China has redefined the illegal direct selling: a) The organization requires for participation fee or purchasing products. b) The organization award the new members recruitment directly or indirectly. c) Use pyramid levels as the organization structure and the compensation method is according to the levels. d) Lure or threat the members to recruit more people to join the organization. (Ouyang W., 2009) This redefinition did not forbid MLMs as clear as before, therefore, Ouyang W, the expert of direct selling believed that the redefinition indicated the government would distinguish MLMs from pyramid schemes in the future and become legal again. What is more, Fang J, another Chinese expert of direct selling, has the same opinion with Ouyang W., and he believed “compensation based on levels” is the core value and motivation of MLMs, the government could consider about it. (Ouyang W., 2009; Fang W., 2009)

As a social media network platform, Wechat is different with Taobao and Jingdong, which are the third-party platform of e-commerce. In China, the latest Law of the Protection of consumer rights and Interests has included the traditional e-commerce platform such as Taobao, Jingdong. However, Wechat business operate on a C2C social media network, there is no law suitable to
this situation. Specifically, the relationship between Wechat sellers and consumers is unclear. According to the Chinese law, the sales contract is built between company or registered business subject and the consumers, and the Law of Protection of Consumer Rights and Interests could be applied for this relationship. Because of the unclear relationship between Wechat business subjects, it is difficult to find the suitable laws which could be applied for it. (Zhao Y., 2017)

Besides, there is no regulatory authority which responsible for the daily operation of Wechat business, as well as the quality of the products. (Li J., 2015) For the false promotion on Wechat there is also no related laws or regulations which could be used to punish it. (Chen X., 2016) The absence of tax law on Wechat business is an essential issue for the Chinese government as well. (Zou W., 2016)
3 Methodology

This chapter clarifies the research methodology of this thesis. The selection of methods and the data collection procedure are introduced. It begins with the research paradigm and the outline of the research approach. Followed is the procedure of data collection and analysis.

3.1 Research method & Paradigm

3.1.1 Deductive & Inductive research

In deductive research, the researchers start their work by looking at theory and try to test the hypotheses they produced from the existing theory. In inductive research there is a different way to use the theory, the researchers also start from the theory, but they would generate new theory from the research. (Greener S., 2008) This thesis uses inductive research since the objective of this thesis is to bridge the theoretical gap instead of validating any hypotheses. Moreover, the theory part in inductive research could be established by the researcher's investigation of reality, and the conclusion could be generated from empirical observations. (Collis, J., & Hussey, R., 2009) This thesis aims to find the ethical issues of MLMs on Wechat, a new business type from reality and the conclusion is generated from empirical observations.

3.1.2 Positivism & Interpretivism

Positivism and Interpretivism are the two main fundamental paradigms. (Collis, J., & Hussey, R., 2009) Positivism is usually associated with natural science research which requires experimentation to prove the hypotheses and generate new theory from the facts. In contrary, interpretivism focus on more on social sciences such as business and management. (Greener S., 2008) In this thesis, the researcher explores the ethical issues of MLMs on Wechat through the eyes and feelings of people being studied and try to find multiple perspectives of reality instead of “one reality”. Therefore, interpretivism is the approach of this thesis.

3.2 Research approach

According to the discussion before, the qualitative approach is suitable for this thesis. As Dr. Greener (2008) mentioned in his book, a qualitative approach is usually to be associated with an inductive approach to generating new theory and it allows to use interpretivism model to search for various subjective perspectives. To search for the answer of the research question in this thesis, the existing theory and interviews are the high-quality sources for generating the new theory of MLMs on Wechat instead of testing any hypotheses.
3.3 Collection of Data

For this research, the data is collected from both the interviews related to the case and the existing theory. During the process of choosing the research question, the access to practitioners should be taken into account. (Greener S., 2008) The research question is about the ethical issues of MLMs on Wechat and the case is "H Lipstick", which is a successful MLMs product and be sold only on Wechat. Moreover, the direct connection between the researcher and this lipstick MLM organization is possible to build, to get more information about the case organization, several video interviews are conducted. Except for the interviews, the Wechat connections with all the interviewees are built as well, which are the channel of the information input during the whole research period.

The data in this research are divided into two different types: primary data and secondary data. Primary data is considered as the data from an original source while secondary data usually from the existing theory. (Collis, J., & Hussey, R., 2009) In this research, the primary data was collected from the interviews and most of the information could not be found outside of the organization. Secondary data was collected through desk research.

3.3.1 Primary Data

Primary data was collected through a serious of interviews. Since MLMs is illegal in China, most of the MLM organizations would hide the real information on their public website. Therefore, for the case study, most of the data are from the interviews, which can provide the relatively actual and latest information.

Before every interview, the research has sent a brief introduction of the topic and the target of the interview to the interviewees, as well as the structure of the interview. All interviews were conducted via Wechat video call because of the long distance (The researcher was in Sweden while the interviewees were in China) between the researcher and interviewees. All interviews were in Chinese and translated by the researcher afterward. The interview transcriptions can be found in Appendix A.

The target of the interviews is getting the information of the studied MLM organization and the product, as well as the profit status, policy’s effect and so on. According to the data, the researcher can analyze the nature of this MLM organization and summarize the ethical issues of this organization. For every interviewee there a specific questionnaire.

Concerning the process of interviewees determining, the researcher attempted to interview four distributors from the different levels of this organization. As the core motivation of MLMs, the system of distributors' levels is an essential subject of this topic. Distributors at different levels have entirely different situation and perspectives, therefore, the researcher has determined four
distributors who are in the very different levels. The multi-perspectives of the internal distributors would provide more detailed information and ideas for this research.

There are the interviewees:

- Lily, an excellent distributor, on the top 2 level of the organization
- Meimei, a middle-level distributor
- Coco, a relatively new participant of the organization
- Sam, the brother of one of the CEOs of the organization

The connection with Interviewees was established through the common friends' recommendation. The researcher did not know any of the interviewees before conducting the interviews. For the form of the interview, it did not follow the structure very strictly, and the interviewees could talk flexible. For every interviewee, there are two interviews and each interview lasted 2 hours. The researcher has recorded all interviews and translated into English (per interviewees' permission).

3.3.2 Secondary Data

Except for the primary data, the relevant theory was collected from existing literature and databases. Since there are very limited researches on the MLMs on Wechat, especially on the ethical perspective, secondary data was obtained as the theoretical background of MLMs and Wechat marketing, as well as the theoretical framework of business ethics.

3.4 Ethics and Sustainability Issues

Before the interviews proceeding, the researcher has explained the procedure and the target of the interviews. All the interviewees are given the right to keep silence when they are asked some questions they do not want to answer. The researcher has asked the permission of recording and explained the possible use before the interviews. Moreover, the interviewees have been given the opportunity to review the transcripts after interviews.
4 Case study

4.1 Company background

F company was founded in 1987 in Guangzhou, China and it is a large cosmetics company. It mainly agents for international cosmetics brands and it has their brands as well. The studied brand is one of their brands. Moreover, this company has nine subsidiary corporations and more than 5000 business agents in China.

H Lipstick is one of the products of F Company, it was introduced to the Chinese market in 2008 and sold through the beauty salons which cooperated with F company, as well as Taobao official store, Wechat and other e-commerce platforms in China. In 2014 the company decided to remain the Wechat as the single sales channel since it has the best performance among all sales channels.

Till the end of 2017, more than 200,000 distributors joined this Lipstick organization, and this lipstick has become the No. 1 in sales volume among the similar products.

4.2 About the Product

As the best-seller of F company, this lipstick has its unique characteristics. This is a 3-in-1 lipstick which means it is a lip balm, lip mask and lipstick with color at the same time. All the materials in the lipstick are extracted from plants, and there is no need to remove it when we sleep.

Moreover, this lipstick will change its color when it appears in different people's lip. In their advertisement, it is "thousand people, thousand colors". About the reason why the company chooses this lipstick as the only product they sell on Wechat, Lily, the interviewee answered:

"Because this lipstick is different with the other lipsticks for makeup. It is suitable for all people, no matter the genders and ages. It is produced by healthy materials, and there is no need to remove it. Moreover, since we only supplied this lipstick to beauty salons and some entity stores at the first stage, some customers complained that they could not buy it conveniently. Our lipstick has a 99% good grade rate (a grading system on Alibaba). Besides, the lipstick is small and light which cost lower on logistics and inventory."
4.3 About the organization

Firstly, the organization structure of H Lipstick is as followed:

![Organization Structure Diagram]

In the chapter of literature review, there is a summary about how to distinguish the legal MLMs from pyramid schemes. In this case:

1) **What is being sold:**
   - The lipsticks and the right of selling the lipsticks.

2) **Team structure:**
   - The Lipstick organization uses a seven-levels business selling mode to sell the lipsticks on Wechat. For the different level, they have different requirement of the sales. From down to top, to get to Carol level, the distributors have to purchase at least ten pcs lipstick; For Crystal level, the minimum purchase volume is 50 pcs/month. Pearl level is 100 pcs/month, and the Gold level is 400 pcs/month. 400 is the maximum purchase amount for the beginners, the distributors who want to purchase more than 400 pcs lipsticks have to pass the three-months exam. For Diamond level, the requirement is 8000 pcs/month. The requirement for the high levels is not allowed to publish. Every distributor can purchase or sell only with their directly up- and- downline distributors, changing up- and- downline distributors are not allowed.

   However, the downline distributors still have opportunities to exceed their upline distributors’ level. In some other organizations, the distributors who joined the
organization early always have the higher levels, or the levels depending only on the sales, which means the downline distributor could never exceed their direct upline distributor since their sales have been accounted into their upline distributor's sales. In this lipstick organization, the levels of distributors depend not only on the sales but also on the team structure. For example, a Pearl distributor has a Crystal downline distributor and several Coral distributors, this month the Crystal distributor has purchased 500 lipsticks from her, the Crystal distributor could upgrade to Pearl level but her upline distributor would stay as Pearl level since the requirement for Gold level is a) 400 pcs sales; b) At least two Crystal downline distributors in the team. Besides, in this case, the downline distributor and upline distributor have the same purchase price since both of them are Pearl level now, for this situation, the organization has a policy named “same level subsidy” which could provide the subsidy for the previous upline distributor. The allowance is 5 RMB per piece.

3) **Compensation structure:**

The income of the distributors consists of a) Purchasing the lipstick in wholesale price and resell the products to others or use by themselves; b) Personal sales; c) The sales of downline distributors. In this Lipstick organization, the retail price and all the prices for each level are fixed. The retail price for the end-customers is 188RMB, and the wholesale price for the Coral Level is 125RMB. Which means, the Carol Level distributors can purchase the lipstick with 125RMB per piece and resell it to the end-customers with 188RMB. The wholesale price for the higher levels is not allowed to publish, but the price difference between each level is enormous. Therefore, the upline distributors would get the money from price difference if their down distributors can sell the lipsticks.

4) **Participation fee:**

There is no requirement of any participation fee. The candidates can become the Carol level distributors by purchasing ten lipsticks automatically. There is also no mandatory training staff to buy or other additional requirements.

5) **Inventory loading pressure:**

To get the lower price, some distributors in this organization might buy a significant amount of inventory. But in the organization, there is no requirement for it. In contrast, there is a limitation for the new salespeople that the first maximal purchase volume is 400 pcs. All the interviewees believe this policy can protect the distributors from significant loss.

6) **Buyback Policy:**

There is no buyback policy for the distributors. If they cannot sell out all the lipstick, they cannot return the lipsticks to the upline distributors and the company. However, for the end-customers they have a return policy for the lipsticks with lousy quality. According to the interviewees, every distributor should take their responsibility and make the right decision on the purchase volume. If they purchased more than they can
sell, they have to figure out this problem by themselves. At the same time, there are some specific Wechat courses and training could help those distributors, as well as the guidance of their upline distributors.

7) **Profit status of the distributors:**

According to the interviewees, there is no one lose money in this organization. But the significant income difference exists. Here is some data from the interviews:

- **Lily:** Joined in the organization at the beginning of 2016, now is on the Diamond level. She sold more than 80,000 lipsticks per month, and there are 80 directly downline distributors and more than 7000 indirectly downline distributors in her team. Her income is around 1,500,000K RMB per month.

- **Meimei:** Joined in the organization in June 2016, now is on the Unstable Gold level. She has two Pearl downline distributors and has to pass the three months exam period to become the Gold level distributor. Her monthly income is around 3000RMB-5000RMB.

- **Coco:** A later participant, joined in the organization in November 2017, now is on the Pearl level and has an income around 2000-3500 RMB per month.

- **Sam:** The only male among all the interviewees, the brother of one of the CEOs of the organization, now is on the Diamond Level. He joined in the organization in December 2017 and sold more than 100,000 pcs lipsticks during the first five months. There are more than 300 members in his team, and around 20 are his direct downline distributors. His monthly income is 150,000RMB.

All the interviewees, including the distributors on the lower level, agree with this compensation system. They think this is a fair system that everyone could get the reasonable return which equals with their work.

8) **The promise of return:**

When talking about the advantages of this business type, all of the interviewees have mentioned that the distributors could get a huge return with a small investment. Some of them have promised that with their training every member of their team could get the return, but the final performance is depending on the distributors’ hard working.

9) **The price and the product’s actual value:**

The comparison of the price and the value of the product is an essential factor in distinguishing the ethical MLM and unethical MLM. According to the interviewees, the reason why the end price of this lipstick is more expensive than the other lipsticks is the particular materials and multi-functions. They do not think the pay is unequal with the value the customers get.
Method of attracting new members and encouraging them to recruit more people:

According to the interviewees, all the distributors joined the organization voluntarily. No one is threatened or lured to recruit new members. They are encouraged by themselves to recruit more members since that is a better way to expand than selling all products by themselves. As Sam mentioned, the process of recruiting is just like a “good-products recommendation activity”, the distributors like our product and recommend to their friends, their friends continue to share with their friends, through the friends’ friends more people have the opportunity to use the excellent product. During the interview, one of the interviewees even tried to convince the researcher to join their team.
5 Findings and Discussion

5.1 Discussion on the organization

With 200,000 distributors and one product, this lipstick organization has created a business legend. They did not spend one dollar on marketing, but everyone in China knows their product. Besides, the organization does not need to do any training for the distributors since the upline distributors would do that to help the downline distributors selling more lipsticks. Now their lipstick is Number 1 in sales volume among the similar products in China.

From the research, this organization is not a pyramid scheme since:

- This lipstick organization is product-centric instead of recruitment-centric.
- The income of the distributors mainly come from the sales instead of recruiting new members.
- No participation fee or inventory loading pressure.
- The organization structure is not fixed, the downline distributors have opportunities to exceed their upline distributors.
- The purchasing and exit of the organization are voluntary.

The organization has put considerable effort on avoiding being a pyramid organization, and they have some policies to protect the distributors' right to some extent. For instance, they do not award the recruitment; the beginners cannot purchase more than 400 pcs at the first time; the distributors' level depends on their sales instead of when they joined the organization.

However, there are still some unethical and illegal factors, such as No Buyback policy; a Big difference in profit between high level and low levels; The promise of "small investment and huge return"; Too many levels in the organization.

5.2 Unique ethical issues of MLMs on Wechat

The interviews with the four distributors of the lipstick organization provide insight in how they expand the network and do business in the new platform- Wechat. Through the information, we can address the ethical issues of MLMs on the new platform- Wechat.

1) Fraudulent

Real name and the real personal information is not required when people registered on wechat. Therefore, if the distributors sell fakes on Wechat, the customers can not protect themselves with the law. The distributors can delete or block the customers and the customers cannot get
the real information of the distributors. Besides, most of the business on Wechat did not register on Chinese Commercial Administration, it is difficult to define the relationship between the distributors and the consumers when there is conflict.

2) Tax evasion

All the interviewees are paying no tax for their income. The tax system for online transactions in China is not developed enough. In this organization, all the distributors level higher than Diamond level must build their own company since the transaction amount is too huge and they want to avoid some legal problem.

3) Lack of transparent information

Wechat is a relatively close space in comparison with Weibo, Facebook, Instagram and other social media network. It is a “one-to-one” or “one-to-more” platform instead of open network. In “Moments”, the important marketing channel of MLMs on Wechat, people can only receive the updates from their friends, as well as the comments. For example, a distributor has posted an introduction of the product and advertised it. Even there are 1000 others' comments about the disadvantages of this product, you cannot see those comments if you are not those people's friends on Wechat. You can get information only from your Wechat friends.

4) Exaggerated profit and factors in their advertisement

This ethical issue also results from the unique characteristic of Wechat. As a social media network, it is difficult to define the users' activities as a business or private behavior. As an individual user, they can post whatever they want. Therefore, some distributors would exaggerate the factor especially the function of the products. What is more, there are several mini-programs which can make fake money transfer record and fake dialog record, some of the distributors could post the fake money transfer record to show their profit and attract their Wechat friends to join them.

5) Exploited relationship

Wechat has connected the users with their friends, business partners, family members, relatives and acquaintances. Among the friends, there is friendship, in China people consider that the friends should share the fortune together and confront any disaster together. Between the relatives, business partners and acquaintances, there are “face” and “renqing” which means people sometimes have to abide to get along well with other people or keep good reputation of themselves. (Luk S T K, Fullgrabe L, Li S C Y. 1999) MLMs distributors can ask their friends, relatives and acquaintances to buy their products or to be their downline distributors through Wechat; those people sometimes cannot reject even they do not need it.
In case of the four interviewees, most of their directly downline distributors are their relatives and previous colleges. For example, Coco mentioned, she has convinced six people to be her downline distributors, and 3 of them stay, the other three exited and did not contact her anymore.

There is a famous relevant debate about the lipstick in China, “Should I buy the lipsticks from my children’s teacher?” Some teachers joined the H Lipstick organization and posted the lipstick advertisement on their Wechat. For the parents it is a dilemma issue, if they do not buy the lipsticks and the other parents have bought from the teacher, the teacher might treat the children differently. But they do not need the lipsticks indeed.

6) A result of the crisis of confidence

Most of the Wechat products are the infamous brand, and there is no guarantee for the quality and no After-sale service. With the expanding of the Wechat business, more and more people become the consumers or distributors of those MLM organization, and their friends, relatives or family recommend most of them. It is easily leading to the crisis of confidence in the whole society.
6 Conclusion

6.1 Conclusions

Doing MLMs business through Wechat, all the interviewees said: this is a perfect idea. The company paid nothing for marketing and the brand become famous through the private distributors. Also, the upline distributors will take the responsibility of training of the new participants to sell more products.

As this picture shows, the MLMs on Wechat makes everyone become the center and affect people around them. In the end, all people are connected, and everyone is the potential customer.

However, it is not easy to succeed as a MLMs business. MLMs expands through the recruitment of new participants, and it could easily drive the MLMs to illegal and unethical pyramid schemes. The MLM organizations which operate on Wechat have also posed a lot of ethical issues.

6.2 Recommendations

In China, the ethical issues of MLMs on Wechat is an emerging problem for both government, the society, the MLMs organizations and the distributors.

For the government: All the MLMs in China is illegal according to the law, but MLMs have many advantages which the other business types do not have. It has made significant contribution for the country. In China, the government could distinguish the pyramid schemes and MLMs and then enhance the management of pyramid schemes. Besides, the law of MLMs and Wechat business should be developed.

For the MLMs organization: Control the distributors' levels, most of the experts suggest a three-level organization is reasonable and could protect the interest of the end-consumers. Since the particular background in China, the MLMs organization could develop themselves according to the requirement of the Chinese law. A good example is Amway, a typical MLM company, but in the official document which is given to Chinese government, it is a single- level marketing company. The most essential point is the protection of the right and interest of the distributors and the end-consumers.
For the distributors: Improve their ability to distinguish the pyramid schemes and MLMs. Pay tax according to the requirement.

For the society: Enable the individual to recognize the differences between pyramid and MLM schemes. Enhance the education of legal issues about these business types. Emphasize the function of ethical principles when the law is undeveloped.

6.3 Limitations
First of all, the two-months timeframe limited the access to primary and secondary data. In this research, that would be better if there are different companies or products be studied which could provide both horizontal comparisons between companies and vertical comparison between different distributors' level in the same organization. Moreover, the collection of secondary data was time-consuming since there are several important concepts in this research, such as Business ethics, MLMs, Wechat marketing. What's more, a survey about Wechat users' attitudes towards MLMs on Wechat could not be done due to the timeframe.

Secondly, the biases exist in this research. Because this topic refers to the cultural background, the bias exists both in theory from China and the rest of China. Moreover, the researcher could affect the results of research, even the research attempts to be objective. (Greener S., 2008) In this research, the Chinese value and the educational background of the research might affect the result.

Thirdly, the unique characteristics of MLMs organizations are one of the limitations. The interviewees are the distributors of MLMs organization, one of their tasks is to attract people to join their team and be their downline distributors. Therefore, during the interviews, they would be unfrank and avoid telling some truths.

Lastly, it is difficult to validate the information. For example, the researcher can not test the material of the lipstick, as well as their qualification. Therefore, it is impossible to compare the studied lipstick and the other lipsticks in the market. For the income of each interviewee, there is also no method to verify the information.

6.4 Future research
For the future research, that would be an exciting direction: Could MLMs be applied on other social media network, such as Facebook? It would be interesting to compare the influence of different culture and background on MLMs. Besides, the discussion of legislation of Chinese MLMs could also be a valuable topic.
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Website
Appendix
Interview 1

Information of Interviewee: Lily, 29 years old; Joined the H Lipstick team at 2016 and now is on the top 2 level of Pyramid of the whole team. She has registered her own company to be a business distributor.

Location: Wechat video chat

Duration: 3 hours

1. About company and product

1.1 Which company does this lipstick belong to? Is this the only product of this company?

This lipstick belongs to the brand L which founded in France in 1958 and purchased by our F Company in 2004, a Guangzhou based Chinese company. Regarding this brand, it has different makeup products, but the H lipstick is the only product that uses Wechat as the single channel.

1.2 Why the company chooses H lipstick as the only product to sell on Wechat?

Because this lipstick is different from the other lipsticks for makeup. It is suitable for all people, no matter of gender and age. It is produced by healthy materials, and there is no need to remove it. Moreover, since we only supplied this lipstick to beauty salons and some entity stores, some customers complained that they could not buy it conveniently. Our lipstick has a 99% good grade (a grading system on Alibaba). Besides, the lipstick is small and light which cost lower on logistics and inventory.

In the first stage, we also have Taobao online store and other online channels for the customers to buy this lipstick. However, we found that the Wechat channel and business model is much active than the other channels. In 2014 the company decided to stop other channels and use Wechat as the single marketing and sales platform.

1.3 Is the price of the lipstick fixed? What is the result if anyone distributor sells lower than this price?

Yes, the price is 188RMB for the end customers. If any distributor sells lower than this price, the authority of this distributor will be canceled. Every distributor has their code on lipstick, if the authority is revoked, the code will be invalid and cannot check on our official website.

1.4 How many distributors who sell this H lipstick do you have on Wechat?
Until 2017, we have 200K distributors on Wechat; they are living in 30 different countries. However, no one in Sweden haha. Moreover, our sale volume in China during these years are No.1 among similar products.

2. About the Wechat distributors team and structure

2.1 Do you have any requirement for the candidates for joining your company? What are the conditions?

No, we do not have any requirement for the candidates. However, we have the limitation on the purchase amount for the first time. Nobody and companies can purchase more than 400 lipsticks for the first time.

2.2 Do you have contracts with the distributors?

No there no contracts, no matter which level the distributors are. They buy our products; they are our distributors, we authorize them to sell our products.

2.3 How is the educational level of the distributors in general? How about their working time, will it affect their full-time job if they have?

They come from the very different background. We have Ph.D. students, teachers, policemen, employees of Top 500 companies; we also have housewives and women from small villages. Most of them are part-time working, but all levels higher than gold level are required to work full-timely. They always sell the lipstick after their job or lunch time. It is very flexible and will not affect the daily life, so it becomes so popular in China.

For example, I have worked for a long time as a designer. Therefore, half of the members of my team are designers, they were my colleges before.

2.4 How is the structure of this marketing and sales team? How many levels do you have?

We have seven levels totally, the top level is CEOs, which connect directly with the company. Every level can only connect with their straight up- and downlines. We have a fantastic name of every level, from the top they are: Jade level (CEO); Diamond level; Platinum level; Gold level; Pearl level; Crystal level; Coral level.

2.5 How is the price differences for the different level? Do you have necessary amount for them to purchase? How can the distributors upgrade their level?

I cannot tell you all about this information, but I can say all that I can say. For Coral level, the minimum purchase amount is ten pcs, and their price is 125 RMB. For Crystal level, the minimum purchase amount is 50 pcs. Pearl level is 100 pcs and the Gold level is 400 pcs. 400
pcs is the maximum amount for the beginners. Only the distributors who have passed the three months exam can purchase more than 400 pcs.

3. About the revenue model

3.1 Should the candidates pay the participation fee at first?

No, there is no need to pay any participation fee if they want to join. They can directly purchase our product, and they become our distributors automatically if they are buying more than ten pcs.

3.2 How is the income structure of the distributors? Can they get money from recruiting new distributors except for sales?

No, all the income are from sales. Even though a distributor has developed 1000 new people, they will get nothing if they never sold one lipstick.

3.3 If they purchase too much lipstick and unable to sell it, could they return it to the uplines or the company?

We only provide the return opportunity to the customers who purchased less than ten pcs.

All distributors who purchased more than ten pcs, they cannot return it. However, I think nobody will buy more than he or she can sell.

4. About the internal training and Wechat courses

4.1 Do you have training or courses for the new distributors? Is it free?

Yes, we have weekly public Wechat courses for the new distributors and candidates. For every team, the leader has a responsibility to enable their members to sell the lipstick. Therefore, almost every night we have to give the lecture in our Wechat group, and it can help the members. All courses are for free if they can sell more, the leaders can earn more money.

4.2 What is the content of the Wechat courses?

For the public course, it is similar as other big companies' lectures for the employees, such as the importance of Network; The skill of teaching kids; How are the new opportunities in this era; Wechat marketing model; Inventory knowledge.

In case of the internal training, it always more practical. For example, I always teach my team members about how to operate their Wechat moment, how to find the potential customers through Wechat.

5. About your personal information and ideas
5.1 What is your motivation to join this MLMs product on Wechat?

After my bachelor, I have started my online store on Taobao, but I failed even I worked very hard. Seven years working experience of the fashion designer. It is so challenging to start a business by an individual in China. My sister convinced me to join them by sending me a lipstick, which saved my lip. Moreover, their Wechat courses helped me a lot. Now I am on the Diamond level, and there are 80 direct downline distributors in my team.

5.2 Why you built your own company?

Just want to be legal, now the relationship between me and my upline is B2B. We do business in the legal framework.

5.3 Regarding those ethical issues which people think about MLMs on Wecht, which do you think is correct?

- Huge profit (the right of consumers)
- Force people to buy the products. (Guanxi)
- Likely to become pyramid fraud
- Buy the customers information, because the phone number is connected with Wechat, they can add the potential customers and do marketing, which private data.
- Mandatory advertisement

5.4 How is your idea about the rapid development of MLMs on Wecht? (the reasons)

- The quality of the products is excellent. For example, our product, the lipstick is perfect, month- to month recommendation
- Chinese People get rich
- The strongly connected network: friends and relatives
- Emphasize the importance of “Person”, people can earn money for themselves
- Desire of Money
- The amount of population
- Do not agree with: the people on the lower educational level are more likely to buy.

6. Other information from the interview
• Every distributor is their own inventory. The company will not send the lipstick to the end customers.

• Nobody lost money in this Wechat business. Everyone has earned money. (Which I do not believe)

Question remain:

Do the distributors get money from the sales of downlines of their direct downlines?
Interview 2

Information of Interviewee: Coco, 31 years old; Joined the H Lipstick team in Nov. 2017 and now is on the fifth level of Pyramid of the whole team. She has two children and has no fulltime job.

Location: Wechat video chat

Duration: 2.5 hours

1. About the company and brand

1.1 Was this brand belonging to a France company before they purchased by F Company? Is this an essential point in your Wechat marketing?

Yes, it was a France brand but purchased by our company. It was an essential point in our marketing. But Now it is not allowed to mention this since the competitors always use this to attack our product.

1.2 Why can the competitors attack you at this point? Is that true or it is false advertising?

It is true; this brand was a France brand. However, people cannot find the record since it was several decades ago.

1.3 Is this H lipstick sold only on Wechat?

No, wechat is the main channel. But we also corporate with some offline stores and beauty salons.

1.4 How are the total sales of this lipstick?

I am not sure, but per second we sell a lipstick.

1.5 Have you ever used this lipstick by yourself? How is it? How is the feedback from customers?

Yes, I already used five pcs. It is right, it is so convenient for me since there is no need to remove it. Besides, it is a 3-in-1 product which is lipstick with color, moisturizing lip balm and lip mask at the same time. For the customers, 90% are well-reputed. The complaints are mostly from those who did not keep using our lipstick.

1.6 Some people on Internet accused that H lipstick false advertisement, for example, in your advertisement you said you had made a pact on Chinese food administration agent, but they cannot find it in the official website of food administration.
They did not know how to search for the information. I can teach you how to check it on the official website. We did have made a pact on Chinese food administration.

2. About the Team

2.1 How are your teams in general? Why the group so important for every member?

Purchasing 10 pcs can join our team. The relationship in our team is very close, and the teams are fixed, no one can change to the other team. The team leaders and the uplines have the responsibility of teaching the downlines.

2.2 Do the team members have full-time job? What is the effect of the lipstick business on their position?

Some of them are housewives from small villages, some of them working at large companies, come of them have their own business. The members are from really different backgrounds. In our team, there are even TV stars and the wife the CEO of Top 500 company in China. They will promote at their Wecht moments as well, and most of them will quit their job when they get to the diamond level.

3. About your performance

3.1 How many lipsticks have you purchased for the first time? How long has it taken to sell out?

I have purchased 20 pcs and become the Coral level. I sold all these 20 pcs within two months.

3.2 After the first time have you purchased more?

Yes, after the first time I purchased 100 pcs more which be sold within three months. After that, I bought 100 pcs again and now I am still selling them. Now I am at Pearl level.

3.3 How is the structure of your end-customers? How many of them have changed as your downline distributors?

The end customers consist of different groups, some of them are housewives, some are foreigners who work in China, and the rest is the working ladies. Around 60% of them are the friends in Wechat which are stranger in real life, I never met them before. 40% of them are friends in real life and connected to Wechat as well. I have developed six end customers as my downline distributors, three of them still on my team. All these six people are strangers in real life.

4. About Wechat marketing
4.1 How do you do Wechat marketing?

First of all, our Wechat marketing slogan is No spamming advertisement; No hard sell; popularize by word-of-mouth marketing method.

I have put a lot of effort into expanding the friends' amount on Wechat, for example, encourage the connected friends to recommend me to their friends with sending them a red pocket. Moreover, I have attended to a lot of Wechat groups and post advertisement in those groups.

I do not marketing on those new Wechat friends, because most of them dislike Wechat marketing and they always delete me from their Wechat friends list. In my case, I always build friend relationship and trust at first, and I will market on them in a non-intrusive way (soft sell). For instance, I will post some selfies on my moments and recommend this lipstick, and only the target customers can see those selfies.

For every transaction, I will do a customer follow up and deal with the complaint. This is not the requirement of the team, but every member will do that since we earn money for ourselves.

Comparing with the other members of my team, I have spent less time than them since I have two children to take care.

5. About Wechat training and courses

How do you think the Wecht online courses and training in your team?

All the courses are not mandatory, but I would attend as much as I can. The courses are beneficial, especially the professional Wechat marketing courses which including the profile picture selection, “moments” marketing skills, Photoshop, materials classification, chatting language skills, teamwork, successful experience sharing and so on.

6. About the profit

How is the status of profit on your team?

I did not know everyone's profit status very well, but I never heard of anyone could not any lipsticks. When they sell the lipsticks, they can get profits.

Furthermore, the company has set a limitation to protect the distributors from huge losses. Which is, any distributor who wants to purchase more than 400 pcs must pass the three months exam period and must have at least three pearl downlines and 10 Carol downlines. (downlines distributors structure exam)

In my case, I can earn 2000-4000 RMB per month. Since other members of my team spent more time than me, I guess that most of them can make more money than me.
7. Personal information

7.1 What is your background and motivation for joining this business?

I was joining in this business in Nov. 2017. I started using this lipstick at 2016, my best friend sent me a lipstick, and I like it. But my best friend did not sell this lipstick, she buys for herself and sends to friends. Therefore I contacted the girl who sold the lipsticks to my friend and asks to be her downline.

7.2 What is your opinion about the MLMs on Wechat of H Lipstick?

For this lipstick, this is a perfect marketing method.

7.3 The structure is same as the real stores. They also have province-level distributors, city-level distributors, town-level distributors. We change those distributors as the person. It can save the cost on real stores.

8. Other information

The sales volume of Lily: More than 200,000 pcs per month. (which Lily do not want to share)

In Lily’s team, there are 6000+ members, 80+ of them are her directly downlines. (list Jiajia’s team structure and the amount of each level)

Same-level profit return system: When your downlines distributors get to the same level as you, she can purchase the lipsticks at your price level. From her purchase you can get 5RMB per piece from the company which called Same-level profit return. But she did not know about whether this system works when the downlines distributor gets to the higher level than her previous uplines.

The Jade level (CEOs) around ten person

All distributors are required to build their own companies when they get to the Diamond level. (Not sure if this is the law issue or not). The income of the Diamond level is definitely more than 100,000 RMB per month.
Interview 3:

Meimei

Wechat video call; 30 years old.

1. Personal information

1.1 How do you know H Lipstick and what is the motivation for you to join this organization?

I was working for a Fashion designer company as an accountant. I knew “Wechat business” in 2013, and most of the products on Wechat were fake or low-quality products at that time. I did not like this marketing type, and I thought I would not buy those products forever. I remembered that one of the characteristics of this marketing type is, the distributors’ group always change the products and brands which they sell, you will always find the new unfamous brands and products from the same distributor.

In 2005, I was pregnant, so I quit my job. In June 2016 I was taking care of my child in my hometown, and I started to think about the Wechat business. Before I was knowing the H Lipstick, I was planning to sell Lipstick on Wechat, but I could not find any good suppliers.

Lily was my previous college, and she is one of the designers of our company. Even we were not familiar, and I knew she has good taste. All the pictures she posted in "moments" are wonderful. I saw she was selling the H Lipstick on Wechat and I have asked her about this business. Lili believed that it is better to test one by myself so I bought one at first. What surprising is, this lipstick has satisfied all my requirements. Therefore, I joined Lily's team after using. During this period I quit for two months since I moved to Guangzhou, but the friends and some previous customers who have bought the lipsticks continue to ask me to buy more. Therefore, I continue to sell it again.

I joined the team entirely voluntarily, and I was fortunate that no one in my family opposed that.

2. How much is the price of the first lipstick?

The first one is same as the market price which is 188RMB. But there is a policy in our organization, that if we want to join the team, after the first lipstick, we can purchase the left nine pcs with 1062 RMB (1250RMB- 188RMB).

3. Which level are you on currently?

I am on “unstable Gold level” which means I am not a stable Gold level distributor. In our organization, there is a policy about the level upgrade, all the Gold level or higher level must pass the three months examination. For example, to become a Gold level distributor, I need to sell more than 400 pcs per month during the examination period. Besides, there is a requirement
for the downline distributor structure, and every Gold level distributor needs 2 stable Pearl Level distributors and some Carol level. For the “unstable Gold level” distributors, we cannot purchase the products according to the Gold level price, but we can get the “same level allowance” from the company. For example, my downline distributors who are pearl level has purchased 100 pcs from me, the price I can get is same as her, so there is no profit for me, this is the reason why our company has set a new policy for the same level purchasing. For every lipstick, the same level allowance is 5 RMB.

4. About the team

There are 30+ members in my group, 10 of them are my direct downline distributors. 2 of them are Pearl Level distributors. Half of the team members have stayed, and half of them left.

If the team members have difficulty selling their products, all the other members will help them. For example, the internal training and the specific suggestion from them. In my case, I have a problem in attracting new customers currently, my upline distributor has shared her experience of developing new customers and the operation of "Moments".

5. About the training

The content of our training is comprehensive, most of them are professional knowledge, for instance, the operation of "Moments" and communication skills. I have never learned anything about marketing and sales, so I think I have learned a lot from those courses. The teachers are selected from the distributors, and there are assistant in every Wechat group who are responsible for sorting and achieving the voice courses.

6. About the profit

For me, the income is unstable, but it could cover all expenses for me and my child.

Besides, for the Gold level, they can earn at least 5000RMB per month, and the income difference between the same level is huge. Some Gold level distributors can earn 50,000RMB per month. When we get to the Platinum level, we can say the income has become stable, and it would be at least 100,000RMB. By the way, the sales of the requirement for the Platinum level is 2000 pcs per month.

7. Do you think the vast income difference is a problem for your organization?

I do not think it is a problem. In contrary, I think it is an encouragement.

8. Comparing with the other platform, what advantages and disadvantages do you think with Wechat?
I think the reason why people in China don’t like Wechat business is the fake advertisement which has exaggerated the factors and the spam information. However, I have never got negative feedback with our lipstick since our product is excellent and we were taught to avoid posting too much on "Moments".

Comparing with other products which also sold in Wechat, we have a lot of advantages. Most of the other products are specially produced to sell on Wechat where is no requirement for the quality and certificate. However, our lipstick is a legal product which exists for a long time and Wechat is just a new channel.

Regarding Taobao, I do not think it is an excellent platform. There are a lot of people selling fake lipstick on Taobao. The customers do not trust the business owners since they do not know each other at all. One more important point is, Taobao waste people's time, you have to select one seller from thousands of sellers.

For the success of this lipstick, I think two factors are most important: Product and Team. Without the excellent product, the team cannot do anything especially in a long-term; Without the excellent team, nobody will know your product.

9. Difficulties when you were doing this business?

It depends on your network.

Some customers think the price of our lipstick is too high.

When I go shopping or go outside, I will try to get people's Wechat contact and try to turn them to become customers or distributors.

I will also add people nearby.

10. Other information

There are 10+ CEO in our organization. The requirement of CEO is stringent. Different from other brands, even the distributors are very rich they could not become CEO if they did not have excellent performance.

I do not think it will become the illegal MLMs.
Interview 4

Sam, Male. 32 years old. The brother of one of the CEOs of the organization. Diamond Level.

Job: Founder of Smart Club in Guangdong Province

1. Personal information and the motivation of joining in the organization

I joined this organization on Dec. 28th, 2017. My sister joined the team at the very beginning, and I am the witness of how she becomes a CEO. She got the master's degree from Jinan University and was a teacher at a university. When she quitted her job and joined the H team, I really could not understand her, as well as our parents. However, she is the pride of my family.

Last year, my sister sent me a voice course of her which was about the "Smart marketing" and I was sufficiently motivated. At that period I found that it was so difficult to operate my Smart Club since the cost for the physical store is prohibitive. My sister's course provides another perspective for me to consider. Besides, I am a person who loves the challenge, even though many people look down with Wechat business, I would like to try.

2. About the team

There are 300+ members in my , and around 20 are my direct downline distributors. During the five months, we have sold more than 100,000 pcs lipsticks.

3. About Wechat business

The most significant advantages of Wechat business is team building and network development. You can share a good product with your friends and they can either buy it for themselves or become your downline distributors.

When I joined the organization, some people did not believe that a man can sell the lipstick as well. But I think Wechat is a wonderful platform for business that everyone can find their position here. As a man, I know which pictures or materials are attractive from male’s perspective and I can share my opinion of beauty. In my team, 30% members are male.

For marketing, we are different with the other brands on Wechat, we never flooded the screen, we never posted many same advertisements in "Moments". Our idea is "Smart marketing" with high-level materials, soft skills in communication and invisible marketing. To be honest, the marketing of H Lipstick is the best one among 400+ Wechat brands in my Wechat. There are more than 10,000 different brands on Wechat, around 100 brands are strong and could be stayed in a long time.

4. Why can this lipstick be so successful?
As a Chinese proverb said, there are three necessary factors for success: Timing; Platform and People. Timing, now we are at the best era, Internet has provided us unlimited opportunities. The platform, here I mean both our company and Wechat. Our company is a large company with long history, and it can research and produce good quality products. The other platform is Wechat, which is the primary platform of our business. Last is people, which is also the most critical factor, this business model has focused on "people" and it can be simulated every member to work for themselves because the income is visible. What's more, we help each other on our team, and you have the whole team as your family and teachers.

Besides, the product has many advantages in itself. First of all, it is small and easy to take, you can just put into your bag and bring it everywhere. Second, you can advertise it everywhere at any time, even when you waiting for a bus. Thirdly, quit effect; you can show your customers the impact of our product in 30 seconds, use it. Lastly, no requirement but protection policy for the beginners, they can purchase 10 pcs and no more any additional requirement to become the distributors. With the protection policy, they cannot purchase more than 400 pcs at the first time which means there is no risk of inventory pressure.

Furthermore, we have only one product. More than 200,000 people are selling the same product. For the distributors, it is easier to sell just one product so they can get deeply into this product. Some companies have hundreds of products, and even the distributors do not know well of them.

5. About the disadvantages, such as resource-dependent and unfair profit distribution system in the organization

Original resource and good relationship network are helpful for selling the lipstick, but it is not the most important reason. Everyone has limited friends, but our friends have unlimited friends, you should work hard to develop those friends. That is the reason why some distributors from the small villages can also sell a lot of lipsticks and developed many downline distributors. In my point of view, the acquired effort is more important than the excellent relationship network.

For our profit distribution system, it is the perfect system. It is not pyramid schemes, we do not charge the participation fee, and there is no award for recruitment. Besides, the level is unfixed, all the profit and level upgrade depends on sales. For example, I was starting this business five months ago, and now I can earn 150,000 RMB per month, much more than many distributors who began 2 years ago. Besides, people doing business with other Wechat brands can generally get 3000-6000RMB per month.

6. How many team members left and how many stayed?

The number of team members is transparent in our organization. Every distributor can stay at the organization forever unless they set a lower price to sell the lipsticks to the end-customers.
However, not every member works very hard, some of them do not want to learn new knowledge and improve themselves. Our organization is flexible, they can always stay, but if they're going to learn more and earn more money, they need to follow the team and work hard.

7. The requirement of being a CEO

Entirely there are 14 CEOs in our organization. For the CEOs, they must have a team of more than 3000 members and the minimum sales is 600,000 per year.

8. The attitude of the government

The government supports Wechat business. This is an excellent method to decrease the income difference in China. Especially for housewives and people from small villages, they have more opportunities to get income and contribute to the society, and they can find their value within the fragmented time.

We do not have any law related issues.