

Who/what is generally responsible for the failure of the majority of MLM companies? What percentage of MLM companies fail?

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For this issue, it is best to look at two phases of MLM companies, start up and maturity.

Although many things can go wrong in a startup direct selling company, two factors are repeated with frequency for the *failure to launch*. The first factor is inability to recruit. This business is based on recruiting a successful sales force to market products. (Obviously, there are many important factors ranging from logistics to personnel to technology to quality control to distribution... and all these can go wrong as well.) It should be noted that the need for capital is in inverse proportion to the ability to recruit. A MLM company that can recruit is often positioned for fast growth and may even become a cash cow. If the company does not have that native ability, it needs sufficient capital to hire the talent to make it happen. And in the absence of the recruitment asset, a company should plan on a much longer trajectory to profitability.

And the recruitment challenge dovetails with the second major reason that companies fail at the onset: lack of adequate capital or funding. Many companies start the business without adequate capital to allow for a one or two year run to become profitable. In fact, many companies assume that they will be profitable within months or that they will not need capital for growth. The lack of buffer capital to survive the early unprofitable days of a company is a prescription for early failure.

As to mature companies, the key answer is to continuously innovate and create ways to bond with both distributors and customers. Companies that cannot grow with the market, or maintain loyalty of distributors and customers, will find that sales will plateau and ultimately decline. This is a branding business and a relationship business. Unless a mature company is ready to continually reinvent itself and stay fresh, it may find itself on a slow, or sometimes rapid, road to contraction and failure.

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