

**Multi-Level Marketing In Islam  
&  
Case Study of Young Living In Singapore\***

By

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\* The views in this paper are solely those of the author and should not be attributed to other parties. This paper was originally submitted to Singapore Management University on 04 August 2014 as part of partial fulfilment of the requirements for the Master of Laws (Islamic Law & Finance).

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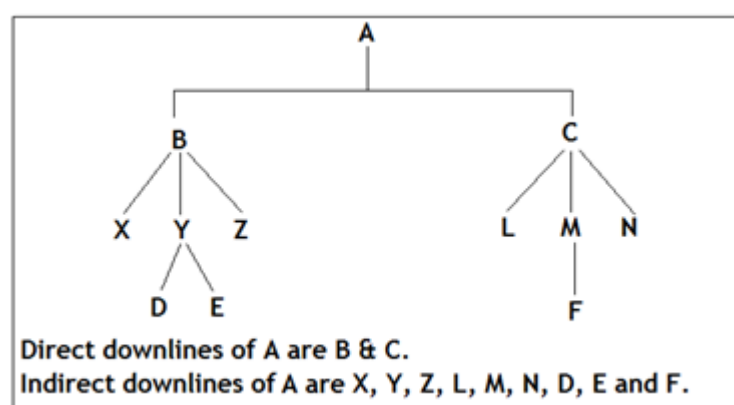
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## Part 1 - Multi-Level Marketing

*A specific form of direct marketing, multi-level marketing (“MLM”) has been a centre of criticisms among pessimists. As a direct result of many unethical MLM business practices that have happened around the world, this scheme is often equated to pyramid-selling due to perceived similarities of both business models. Nowadays, studies have shown that MLM is different from the disreputable pyramid scheme. More people are beginning to try out MLM schemes to earn extra income. Having said this, the ummah (i.e. international Muslim community) should consider whether MLM is indeed in compliant with Sharah laws before they participate. Contemporary scholars are beginning to realize that MLM business structures can vary. While some seem to be more ethical or Shariah-compliant than the other, the purpose of an acceptable MLM always has to in line with the maqasid as-Shariah.*

### A. Background

The Direct Selling Association of Singapore (2014) explains MLM as a popular retail method in which its consumer products are not sold in stores but by independent mobile sales people. As a form of direct selling<sup>1</sup>, there is usually face-to-face interaction between a selling representative and a potential buyer. The commission structure of MLM is unique and the venue where the sale takes place can be anywhere. Unlike direct selling (i.e. single-level marketing), MLM ensures that sellers are rewarded not only for one’s product sales but also the product sales of their direct and indirect downlines<sup>2</sup> as depicted below.



<sup>1</sup> Direct selling includes “in-home selling situations such as door-to-door solicitations, appointments, referrals, and product as catalogs and the Internet to disseminate information, (Vander Nat and Keep, 2002, p 140)”

<sup>2</sup> A downline is a person recruited by a seller. A seller’s downlines can have several other downlines.

Koehn (2001) mentioned that MLM schemes are one of the fastest growing types of businesses. Constantin (2009) mentioned that although MLM is heavily criticized, it is still one of the best tools of relationship marketing not only to garner long-term profits but to establish strong business relationship inside the distribution channels.

Direct sales businesses (in which MLM is a subset) is growing steadily around the world, with America being the largest market as depicted by Direct Selling Association (2014) below.



## B. MLM in Singapore and Malaysia

MLM is prevalent in many parts of Asia, especially Malaysia and Singapore. Direct Selling Association (2014) gave estimated MLM sales figures below:

<u>Country</u>	<u>Sales (in U.S.\$)</u>
Hong Kong	\$128 million
India	\$300 million
Indonesia	\$522 million
Japan	\$24.5 billion
Korea	\$4.6 billion
Malaysia	\$1.0 billion
Philippines	\$238 million
<b><u>Singapore</u></b>	<b><u>\$261 million</u></b>
Taiwan	\$1.3 billion
Thailand	\$800 million

According to a contemporary Malaysian scholar, Dr. *Ustaz Zaharuddin*<sup>3</sup> Hj Abd Rahman (2007), MLM is very popular in Malaysia and it is used to promote both consumer products and financial instruments (e.g. unit trusts, *takaful* products). According to Pandey (2014), Malaysia is likely to be one of the largest MLM countries in Asia, with total revenue predicted to be RM 8 billion by 2020. Two (2) Malaysian companies which are currently in the top global MLM companies are Cosway Corp and DXN Holdings Bhd.

Meanwhile, there are about twenty-four (24) active members in Direct Selling Association of Singapore. These members are companies which do legitimate MLM

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businesses. Currently, membership is not made compulsory<sup>4</sup> by the Singapore government.

Should a MLM company want to start a business in Singapore, it should foremost hire lawyers to go through the Singapore legislation to ensure that its operations and structure do not violate any part of the regulations. Once there is green light given by the lawyer, it is safe for the MLM company to register with the Registry of Company (i.e. Accounting and Corporate Regulatory Authority) to be like any other company in Singapore. The authorities will only intervene if there is any complaint from the public; they will not hesitate to close down the business of that MLM company which is being suspected of breaching certain laws.

Hence, despite such stringent guidelines being implemented, more people in Singapore are participating in MLMs as an alternative source of income. In Malaysia, people join MLM because they want to achieve financial independence, personal freedom, product and social benefits and incentives (i.e. reward system) (Ong & Cyril, 2007).

### **C. MLM & Pyramid Schemes – Are They the Same?**

Pyramid selling involves a “transfer scheme that uses certain marketing tools that illegally achieve financial success for some by imposing a direct loss on others and that are inconsistent with establishing a viable retail base” (Nat and Keep, 2002).

While MLM is a business based on actual products/services sold, pyramid is an endless-chain distributor schemes in which the “products” are the opportunity to recruit (Koehn, 2001). While the former is legitimate, the latter is illegal because of its unethical aspects. Also classified as “ponzi schemes”, pyramid schemes are fraudulent as they promise a large reward in return of a small investment. In addition, only those who joined the scheme early will be able to make lots of money. Those who participated late are likely to lose money as there are not enough remaining recruits under them in the network. According to Vander Nat and Keep (2002), such schemes usually do not last long as there is always a limit to how many people can be recruited and the chances of success for each new member will diminish gradually.

According to Chan & Lim (2002), MLM and pyramid schemes are defined differently in particular on how the reward system works. In the former, the commission is based on actual sales made by a person’s direct and indirect downlines. However, in the latter, the commission is purely or largely based on the membership fee paid by a person’s

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<sup>4</sup> This could be because if most MLM companies could have obtained membership from DSA of other countries and they are merely setting up a branch in Singapore.

direct and indirect downlines. Hence, a pyramid scheme requires participants to pay an upfront fee and they will be rewarded for each new person recruited directly or indirectly without considering the underlying business or economic transactions (i.e. sales of products).

In conclusion, a pyramid scheme is considered to be an illegitimate form of MLM due to the following characteristics:

- ❖ The hype or commotion raised by the company about the ease to earn money by recruiting people.
- ❖ The product sold is of exorbitant price yet of little value which society may not look for.
- ❖ Participants are initially required to invest a considerable amount, either by paying a registration fee or buying inventory in large quantities.

Direct-Selling Education Foundation (2012) gives useful tips on how to differentiate a legitimate MLM from a pyramid scheme:

- MLM companies focus on uniquely useful tangible products with objective to serve societal needs.
- MLM companies expect members to work hard in understanding customer needs to sell the right products before getting rewarded (i.e. *no pain, no gain*), while pyramid scheme relies heavily on new recruits to do the job and the uplines will get most of the credit without exerting much effort.
- MLM companies usually have membership with Direct Selling Association<sup>5</sup>.
- Pyramid schemes provides unrealistic declaration that people can get rich quickly (i.e. *it sounds too good to be true*). Hence, there is usually misrepresentation made. Even if that statement can be backed up, it is likely to involve some dubious or fraudulent business tactics which is illegal and not sustainable.

John Chu (2013) provides a quick checklist as follows:

<b>Legitimate MLM business</b>	<b>Potential Pyramid Scheme</b>
Compensation coming from selling a product	Compensation coming from recruiting people
Sell [unique yet useful] products	No [useful] product

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<sup>5</sup> Direct Selling Association is a body that ensures that its members who do direct selling (including MLM businesses) do so with “highest level of business ethics and service to consumers” (DSA, 2014). A registered MLM company has to undergo a thorough legal review of its marketing materials and policies, as abide by its DSA Code of Ethics.

Products with reasonable market price [or prices commensurate with the quality]	Price too high [to justify a useless product, if it ever exists]
Low or no membership fee	High membership fee
Members are free to buy any quantity products	Members need to buy huge amount of products upon entry
Legitimate [clear written] return policy	No return policy (or hard to return the goods)

#### D. Pyramid Schemes and MLM from Singapore Legislation

The Singapore government is aware of MLM businesses and pyramid schemes and clarified that “*not all multi-level marketing techniques are undesirable*” and hence “*should not be lumped together with pyramid schemes.*” (Ministry of Trade and Industry, 2014).

MLM businesses in Singapore are governed by the Multi-level Marketing and Pyramid Selling (Prohibition) Act which is administered by the Ministry of Trade and Industry (“MTI”). Meanwhile, the Commercial Affairs Department (“CAD”) of the Singapore Police Force will investigate offences committed under that Act. A chronology of events relating to this legislation is as follow:

- ❖ 1973 – The Act was first passed
- ❖ 2000 – Act amended to expand definition of pyramid selling. Exclusion Order passed to exempt certain businesses from the Act.
- ❖ 2001 – Exclusion Order amended to clarify certain provisions and other legitimate businesses

Businesses that are generally exempted from the Act are insurances businesses, master franchise schemes and direct selling schemes which meet certain conditions<sup>6</sup>.

The offences made under the Act are mainly relating to the participating in or registering a business or companies with the intention to promote a pyramid selling scheme. Under the Act, anyone who participates in pyramid selling can be fined up to \$200,000 and jailed up to 5 years. Even a person who unknowingly participated in such schemes could be guilty of committing an offence as the government feels “this is the best way to deter the potential promoters of such schemes”.

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<sup>6</sup> The conditions are, among other things, that the reward system must be based on actual underlying transactions (e.g. sale, lease, and license) and not based on recruitment, no misrepresentation made and clear policy on refund and buy-back guarantee.

## E. MLM from Ethical Point of View

Although legitimate MLM provides quality products and give people a sideline stable income, Koehn (2001, pp 158-159) pointed out four (4) possible unethical issues arising from such activities:

1. Selling to family members and friends. MLM members who want to earn quick legitimate commissions may start off by asking their own friends and family members to buy MLM products. This may affect human relationship. In order to be ethical, an MLM company has to consistently warn and remind its members not to “instrumentalise” existing personal relations. However, this is a difficult matter to settle, considering that most new members do not have a marketing strategy or business contacts.
2. Exploiting the host-guest relationship. Most MLM activities start from homes e.g. when someone whom you know and always comes to your house unexpectedly introduces MLM products and its business model. This is unethical because a guest is not supposed to sell something. However, a host, being naturally “responsive” to a guest’s needs, may not want to offend the guest. The host may eventually accede to the guest’s offer to buy the MLM goods and even commit to participate in this scheme. Hence, this will only blur the demarcation between “a social setting” and “a selling setup”. Ethical MLM companies should screen through the members, especially those who have criminal records (e.g. harassment). Immoral members can easily jeopardize the reputation of the MLM company if their selling approach is offensive and unacceptable to customers.
3. Exploiting the professional-client relationship. MLM can be a potential issue for professionals especially doctors or lawyers. For example, a medical general practitioner (“GP”), while prescribing Western medicines based on fiduciary relationship with the client, may also suggest the same client to take up MLM herbs as supplementary health. The GP may do it out of goodwill, as herbs are natural and have been proven to have better curing capabilities than chemical-based Western medicines. Yet, some unscrupulous GPs may still sell MLM products to their patients with the sole intention to make sideline income. The clients, on the other hand, may feel obliged to buy them as they have to heed the advice of a medical professional. However, the trust may be breached if the customer finds out later that the MLM product (especially chemical supplements) prove to be useless or have adverse side effects to people with certain allergies.

A similar illustration is when a lawyer is handling a legal suit involving an MLM company in which he himself is a member. To resolve this issue, the lawyer has to



declare to the judges that he cannot take up the case; otherwise there will be an obvious conflict of interest.

4. Appealing to greed. Some legitimate yet unethical MLMs and most pyramid schemes only lure members by promising them that they can get rich quickly and using success stories as examples. By encouraging greed, members will soon think that the ends justify the means. An ethical MLM company should not be rooted by materialism motivated only by money.

## F. Pyramid Schemes and MLM from Islamic scholars' perspective

### Islamic Transactions

Islam, being a way of life prescribed by the Divine, covers businesses. Islamic finance is based on Shariah principles. Though Shariah by itself is not a codified book of law, its main sources are the Koran, the *Sunnah*, *Ijma* and *Qiyas*. There are four major schools of thoughts for the Sunni Muslims, and one for the *Shia* Muslims. These schools of thought do not just cover theology and jurisprudence but economics, criminal and social aspects.

### Pyramid Schemes

A pyramid scheme is not just unethical but *haram* from Shariah perspective. The Permanent Committee in Saudi Arabia for Research and Fatwa has issued an opinion based on Fatwa no. 22935, dated 3<sup>rd</sup> May 2004<sup>7</sup>; stating that pyramid scheme is *haram* because "the purpose of this dealing is to earn commission, not to buy the product." Four (4) main reasons are mentioned why pyramid selling is forbidden:

1. There is *riba al-fadl*, which involves an exchange of goods of the same type but of different quantity. The member pays an exorbitant membership fee in cash, hoping to get more cash in return without any real underlying business transaction. This is no different from gambling. In addition, the committee said that to some degree, *riba al-nasi'ah* also exists as pyramid selling involves deferred payment of a amount larger than if immediate payment is made.
2. There is *gharar* in the transactions because the success of the members does not depend on product sales but instead on the number of successful downlines recruited under him. The existence of the subject matter (i.e. goods) is also questionable.

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<sup>7</sup> Actual date stated in 14 *Rabiul Awwal* 1425 *Hijrah* based on Islamic calendar.

3. There is *zulm*<sup>8</sup> e.g. unlawful consumption of people's wealth. Only those pioneer members who have entered the scheme early will get the biggest share of the rewards, while those who participated later (being at the bottom of the pyramid scheme) tend to lose a lot of money. Although some people may justify this as gifts (i.e. *hibah*) or brokerage fees, the committee does not agree as the amount is too exorbitant.
4. There is deception. Though the real reward is attributed only to the recruitment, some "smarter" pyramid schemes use a tangible product as an alibi or *hiya*<sup>9</sup> to convince everybody that there is a legitimate transaction. Hence, there is clear misrepresentation as the sale of a product is not its true goal. In addition, pyramid schemes usually cheat people by overpromising huge rewards (e.g. get rich quick) when in reality, it is not possible for most people to achieve.

### MLM

While the earlier mentioned fatwa given by scholars in Saudi Arabia covers both pyramid schemes and MLM, the National Council for Islamic Religious Affairs in Malaysia has a differing opinion on MLM. This is because pyramid schemes and MLMs are actually different business models. The scholars in Malaysia issued a fatwa on 23 January 2006 stating the following:

*The Committee<sup>10</sup> has decided that the concept, structure, and regulations of Multi Level Marketing (MLM) approved by the Government are permissible and not in contradiction to the Islamic business concept (e-Fatwa, 2014).*

Meanwhile, JAKIM<sup>11</sup> (2013) mentioned that although MLM is considered *mubah* (i.e. permissible), the societal public interest, equity among the transacting parties as well as fifteen (15) parameters must be met.

Those fifteen (15) parameters<sup>12</sup> specified by JAKIM will be discussed and applied in a case study of one of the MLM companies in Singapore, later in this paper.

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<sup>8</sup> *Zulm* refers to oppression.

<sup>9</sup> A legal fiction / stratagem to circumvent a certain established ruling. Although it is allowed by scholars, this must be used with extreme care so as to avoid misuse by ignorant Muslims.

<sup>10</sup> 72nd Muzakarah (Conference) of the Fatwa Committee

<sup>11</sup> *Jabatan Kemajuan Islam Malaysia* (Department of Islamic Development Malaysia) was established by the Government of Malaysia to "mobilise the development and progress of Muslims in Malaysia, in line with the country's status as an Islamic country which was growing in strength as well as fast gaining worldwide recognition"

<sup>12</sup> While the Islamic authority of Malaysia imposed 15 criteria to be met (for an MLM business to be deemed as permissible in Shariah), the *Dewan Syariah Nasional Majelis Ulama Indonesia* (National Sharia Board – Indonesian Council of Ulama) has earlier given a fatwa in 25 July 2009 (No. 75/DSN MUI/VII/2009) giving guidance that an MLM based on 12 criteria. Those criteria mentioned by the Indonesian Islamic authority will not be elaborated here.

Meanwhile, on 10 April 2014, the Office of the Mufti from the Islamic Religious Council of Singapore (“MUIS”) has issued an *irsyad*<sup>13</sup> stating that MLM can be practiced by Muslims provided conditions are met. The conditions are summarized below:

1. Mutuality – Both contracting parties (i.e. Muslim customers and the MLM company) are willing to enter to this agreement and there is no coercion or nobody is under duress.
2. Products – The items sold by MLM companies must exist, *halal* and beneficial to society. The price sold must also be reasonable (i.e. not too expensive).
3. Compensation – Any bonuses and commissions must be disclosed and agreed upfront by both contracting parties. There should not be any hidden costs or incentives.

MUIS is against these types of the following activities:

- ✓ No underlying products – Pyramid scheme aims primarily at incentivizing members when they get other people to participate in this scheme, without having the underlying products / services involved. If there is no underlying subject matter, the *aqad* will be void as the intention of the MLM is likely to be merely profiteering.
- ✓ Compulsion – The MLM company should not make it mandatory for its members to meet the minimum purchase order or pay a enrolment fee before giving them the bonuses and other incentives. Under Islamic economics, buying and selling should be based on arm’s length and not based on compulsion.
- ✓ Shariah – This involves any element of “manipulation, exploitation, injustice, unfairness and deceit” or anything that contradicts the principles of basic *muamalah*. The intention of anybody participating in this scheme is to personally consume the products and enlighten society by morally persuading them to use them as those goods are beneficial. Any commission resulting from selling the goods or recruiting new participants should never be the primary motive.

إِنَّمَا الْأَعْمَالُ بِالنِّيَّاتِ، وَإِنَّمَا لِكُلِّ امْرِئٍ مَا نَوَى...

*Actions are [judged] by motives, so each man will have what he intended.*

(40 Hadith Nawawi 1)

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<sup>13</sup> *Irsyad* is a religious guidance issued by the Office of the *Mufti* to address various issues related to Islamic practices and perspectives on current developments especially in Singapore, although a *fatwa* seems to be a more persuasive Islamic legal ruling than the former as the latter is decided after vigorous discussions among the fatwa committee members,

✓ **What makes MLM *halal*?**

There is no explicit reference of MLM in the primary sources of Islamic law. However, there is one *athar*<sup>14</sup> mentioning as below:

The second caliph of Islam, *Sayyidina* Umar al-Khattab, mentioned:

لَا يَبِيعُ فِي سُوقِنَا إِلَّا مَنْ قَدْ تَفَقَّهَ فِي الدِّينِ

*No one should sell in our markets except one who has understanding in the religion*"

(جامع الترمذي, Vol. 1, Book 3, Hadith 487)

This shows that religion is not just tied to the *ibadah* (ritualistic) aspects but also to *muamalah*.

Meanwhile, the contemporary Malaysian scholar, Dr. *Ustaz* Zaharuddin (2007), mentioned that there have been many concerns whether it is really *halal* (i.e. permissible) to earn income by joining any of the MLM schemes. Though there have been many people who claimed that MLM is perfectly *halal* and they quoted various texts from the *Quran* and *Sunnah*, the evidence is general in meaning and does not provide specific verification of MLM business due to its peculiar business model. Many scholars from Middle East have yet to give their individual *ijtihad* on MLM as MLM businesses have not penetrated the Arab countries on a large scale.

The minimum standards set by Dr. *Ustaz* Zaharuddin (2007) for an MLM business to be Shariah-compliant are as follows:

✓ **Goods/services<sup>15</sup>**

They should have real value to society and cannot involve *hiyal* (e.g. sale of those goods is fictitious with intention to avoid Shariah prohibition).

✓ **Product is not *ribawi***

*Ribawi* items cannot be traded unless on spot bases (i.e. no credit sale). These items which are mentioned in the *hadith* are include gold, silver, currencies, wheat, barley, salt and dates.

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<sup>14</sup> This does not refer to the *sunnah* of the Prophet (p.b.u.h.) but instead denotes *sunnah* of the Prophet's companions.

<sup>15</sup> The conditions that may affect the sale must still be upheld. Details can be found in Book 1 (Sale) of The Ottoman Courts Manual (Hanafi).

✓ **Transparent & fair compensation plan**

Commission can only be earned when there is effort<sup>16</sup> made to the downline. Effort can be in the form of meetings, educating and explaining the product features and sales techniques to the downline from time to time. If the upline has nothing else to offer, the compensation should cease.

Reward must be based on real business and hence, compensation should not be tied to the number of new people recruited, but rather, based on the sales volume. Otherwise, the commission earned may be categorized as *syubha* income.

The reward system must be easy to understand and fully disclosed, else, there could be *gharar*, misrepresentation or possible fraud.

To prevent any form of coercion, there should not be any sales target set by the company and imposed onto the members. For example, the company should not insist that SGD10mn sales be generated for month of August 2014. The MLM company should, however, disclose the compensation plan so the members will know how hard they need to work to enjoy the different types commissions provided.

✓ **No pyramid scheme**

Everybody should have a chance to get commission based on performance, not based on First-In-Rich-Forever Scheme (“FIRF”). FIRF scheme, like a pyramid selling, ensures that only those who joined the scheme early will get more rewards than those who joined later. However, in a legitimate MLM, it is possible for a hardworking downline to make more profits than a lazy upline.

Meanwhile, a contemporary Singapore scholar, Ustadh Mohd Kamal Mokhtar<sup>17</sup> (2001), mentioned an additional element which is necessary to establish an MLM is permissible in Shariah. This is pertaining documentation and how contracts are drafted. For example, *gharar* in the contractual obligation between the MLM company and the members could exist as follows:

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<sup>16</sup> This may be inferred by *Ustaz Zaharuddin* through the verse of the Holy Koran where it mentions “...and that a man shall not deserve but (the reward of) his own effort” (Surah النجم: Verse 38)

<sup>17</sup> He is currently an honorary member of the Singapore Islamic Scholars & Religious Teachers Association (PERGAS)

1. MLM may sell the goods in 2 modes of payment and 2 different pricings. The company may sell to the members a retail price and wholesale price, either one can be paid via cash or via card (e.g. Mastercard, Visa, NETS, etc). If the member purchases the item without specifying the details, the contract is technically deemed by Shariah as invalid. As the terms of payments are not established, *ijab* and *qabul*<sup>18</sup> are not yet formed.
2. MLM may sell the goods to the members by inserting an inter-conditionality clause<sup>19</sup> in the agreement. For example, MLM will only sell goods to the members at distributor's price provided that the members can sell back to the company (via refund policy) a minimum volume of goods. Such clause will only cause confusion.
3. Combining of contracts between a sale and agency agreement. The sale agreement is for the public or members to buy the goods (either at retail or whole pricing). However, the agency agreement is to authorize the members to sell the goods on behalf of the MLM company. The BNM Murabahah<sup>20</sup> Standard (2013, p 29) clarifies the following:

*If an agent is employed, IFI [i.e. Islamic Financial Institution] must establish legal documentation evidencing the appointment of the agent and outline specific roles, duties, rights and obligations to be undertaken by the agent on behalf of the IFI. The agency documentation must be separated from murabahah contract.*

Hence, if the agency agreement is assimilated into the sale agreement, the whole contract is by itself invalid in accordance to Shariah. While some hybrid contracts are permissible in Shariah, combining contracts comprising a sale and agency is not allowed.

The opinions given by scholars that concluded that MLM is *haram* are likely to be directed to pyramid schemes only. In the past, scholars are unaware of the subtle differences between an MLM and a pyramid scheme. To determine if an MLM company is legitimate, one has to ensure it meets the criteria of an ethical business model based on prevailing legislation of that country. However, to establish if that MLM company is Shariah-compliant, one has to understand the business model,

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<sup>18</sup> They literally mean “offer and acceptance”.

<sup>19</sup> An inter-conditionality clause is deemed as impermissible by the BNM Shariah Advisory Council in its 148<sup>th</sup> meeting on 24 June 2014.

<sup>20</sup> Although a MLM business is likely to involve a *Musawamah* sale (where the cost price and profit are not disclosed to the customer) instead of *Murabahah* sale, this BNM Murabahah Standard is the closest equivalent to the former and the student applying *qiyas* on both *musawamah* and *murabahah* concepts.

the operations and Shariah concepts being applied as well as the documentation (i.e. *aqad*) to ensure that conditions set by the religious authorities are met.

✓ **What makes MLM haram?**

According to JAKIM in its latest publication in 2013, *Garis Panduan Perniagaan Jualan Langsung Secara Pemasaran Berbilang Tingkat (Multi-Level Marketing) menurut Shariah*<sup>21</sup>, MLM companies that have the following features are likely to be involved in either *haram* (i.e. forbidden) or *syubha* (i.e. doubtful / unclear) transactions:

❖ **Elements of pyramid scheme**

- Such scheme involves either a degree of *maysir* or *qimar* using money game. Newly-recruited downline will lose their participation fee if they cannot find other people to join the scheme.
- No written agreement between the company and the participants.
- The scheme only focuses on recruitment, rather than selling products that are beneficial to society.
- The main income of the company is from the participation fees paid by the downline, rather from the revenue of the products sold.
- Participants must purchase a minimum order or certain goods specified by the company, or pay a minimum sum (on a regular basis) to enjoy the bonus or other benefits arising from downline or personal sales.
- Participants must implement “inventory front-loading”<sup>22</sup>. This is where the MLM company requires participants “to purchase an unreasonable amount of inventory that cannot realistically be resold and/or used within a reasonable amount of time” (Barbener, 2013).
- Membership rank can be bought [with money]. In an MLM business, members are promoted based on their working experience in generating sales or training the downlines.
- Rigid [and unfair] reward system based on the hierarchical structure and there is a prohibition from a level-entry participant to earn more than the upline although the former has worked harder to get more sales than the latter.

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<sup>21</sup> “Business Guidelines for Direct Selling Using Multi-Level Marketing in accordance to Shariah”. The author viewed this as a decision made by scholars via *ijma*. Currently, only the Malay version is available in the Internet.

<sup>22</sup> The US Federal Trade Commission viewed front loading as inappropriate activity (Barbener, 2013).

- No options<sup>23</sup> – no refund or buy-back policy and participants cannot withdraw from this scheme.
- ❖ Elements of deception, manipulation, exploitation in the marketing plan and incentive scheme:
- No fair dealing.
- ❖ Elements of coercion
- Hard-selling that involves a degree of force undesired by the consumers.
  - Insufficient time given for consumers to evaluate the product after explanation is given by the sellers.
  - Participants are not given the choice on the type and quantity of products to buy and as they can only buy in fixed packages.
- ❖ Elements of wastage
- A few participants may buy the goods in large quantities with wholesale prices hoping to profit by selling at retail process, but they do not have a credible strategic business plan.
  - Purchase of goods is unrealistic i.e. not based on actual consumption and capability of the participants to sell them.

If those products cannot be sold, they may have to be thrown away if they are perishable, or the participant may have problems returning the goods to the company as there is no clear refund policy.

- ❖ Promise of fixed rewards even without effort
- Any MLM company that promises fixed rewards either in the form of commission or bonus without any effort is repugnant to Shariah principles as this contains element of *riba*.

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<sup>23</sup> The author would equate this as absence of *khiyar*. In a real business transactions, contracting parties have the option of rescind or terminate the contract in the absence of certain conditions.



❖ Elements of syubha

- It was mentioned in an extract the *hadith* below:

إِنَّ الْحَلَالَ بَيِّنٌ وَإِنَّ الْحَرَامَ بَيِّنٌ وَإِنَّ بَيْنَ ذَلِكَ أُمُورًا مُشْتَبِهَاتٍ...

*That which is lawful is plain / clear and that which is unlawful is plain / clear, and between them are matters which are not as clear...*

(سنن النسائي, Vol. 5, Book 44, Hadith 4458)

## Part II - Case Study: Young Living Essential Oils in Singapore

### A. Corporate background

Young Living Essential Oils (“Young Living”) is currently a world leader producing and selling natural essential oils for health reasons for society. The company has self-owned farmlands in several parts of America, France and Oman to grow herbs such as lavender, peppermint and melissa. It also has state-of-the-art distillery in North America to extract pure essential oils from herbs. Founded by Gary Young and headquartered in Utah, Young Living today has offices in Australia, Europe, Canada, Japan and Singapore.

Young Living has over 400 products to sell to the public. It also offers a business track for distributor/participants.

Member Type	Pricing	Started Kit Required?	Essential Rewards Eligible?	Eligible for commissions?
Retail customer	Full price	No	No	No
Member / participant	24% off retail	Yes but not compulsory	Yes	Yes

### B. Business plan

Young Living opened a branch in Singapore in 2010 and operates by way of a legitimate MLM scheme. There are no fees imposed for joining or withdrawing the scheme. Members, are however, highly encouraged to buy the starter kit to try out the essential oils on themselves first, before they market them to the public. Depending on the rank or seniority of the members, a senior member will get slightly more rewards than a junior member. However, the former will bear a bigger responsibility as they are supposed to support and train the downlines under them so that the downlines are able to sell the products better and understand the technique of applying the oils for health well-being.

The business works via point system. Depending on the type and quantity of products bought, the points received by the member can be accumulated and redeemed to get a free gift which varies every month.

A member must meet the criteria usually imposed by any other legitimate company in Singapore i.e.

- At least 21 years old or any entity of good standing<sup>24</sup>
- Has NRIC/employment/dependent pass
- Has a registered address within or outside Singapore
- Agrees to the compensation plans set out by Young Living
- Completes and signs the Member Agreement + Essential Rewards Enrolment Form (Singapore) and return to the company within thirty (30) business days.

### C. Documentation

Young Living has the following main documentation.

1. "Welcome to Young Living" booklet
2. Member Agreement + Essential Rewards Enrolment Form (Singapore)
3. Young Living Singapore Pte Ltd Independent Distributor Policies & Procedures (effective Jan 2013)
4. "Direct Deposit of Commissions" form
5. SEED<sup>25</sup> (Start, Educate, Empower and Duplicate) booklet – How to start doing business in Young Living
6. Tax Invoice
7. Young Living Compensation Plan
8. Distributor Resource Guide
9. Monthly Gift Promotion brochure

The most important are item 2 and 3. While item 2 is the *aqad* for *wakalah bil ujah* between the member and the company, item 3, which is almost thirty (30) pages, lays down the terms and conditions for the contract such as:

- Code of Ethics
- Amendments to the terms
- Application to be a member
- Deceptive practices, including cross-line recruiting, confidentiality agreement, unauthorized recruiting
- Upline's responsibility
- Advertising
- Testimonials, meetings
- Sales requirements
- Commissions and bonuses
- Product returns

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<sup>24</sup> This refers to corporations, partnerships, limited liability companies and trusts whose constitution is of good standing certified by the Accounting & Corporate Regulatory Authority. The entity must not get involved in other distributorship.

<sup>25</sup> This booklet will prepare new members how to make full use of Young Living's essential oils and start getting rewards.

- Ordering, shipping, payment, account management
- Dispute resolution & disciplinary action
- Inactivity, termination & renewal

To be a member, one has to sign the Member Agreement + Essential Rewards Enrolment Form (Singapore). The particulars required are:

- Applicant's particulars
- Shipping information
- Delivery preference
- Referral/upline
- Option to join the Essential Rewards Programme
- Option to buy other Young Living products
- Shipping and handling fees

#### D. Analysis

##### Shariah

With reference to JAKIM's latest publication on *Business Guidelines for Direct Selling Using Multi-Level Marketing in accordance to Shariah*, the fifteen (15) parameters are laid and compared with the business model of Young Living.

##### 1. Registered and licensed

Called "Young Living Singapore Pte Ltd", the MLM company is registered with the Accounting and Corporate Regulatory Authority in 2010. Corporate details below:

- Registration no. 201008025N
- Address: 230, VICTORIA STREET, #07-08/09, Singapore(188024)
- Products and services: aromatherapy products, essential oils, health supplements, skin care products

##### 2. Direct selling in written form

- JAKIM specified that membership should only be effected in writing and not based on verbal conversations or gestures. The intention is to avoid disputes.
- The contract should stipulate the terms and conditions, roles and responsibilities between the company and the members, etc.
- The contract must be understood and mutually agreed by both parties.

Young Living does all direct selling (e.g. membership application, purchase of goods, delivery, refund, etc.) in written form.

### 3. Cooling-off period

JAKIM mentioned that an MLM member can quit an MLM scheme by giving at least ten (10) business days prior notice after accepting the membership contract. Once the members decides to quit, the company has to do the following:

- Return the membership fees.
- Repurchase the unsold goods<sup>26</sup> earlier brought by the ex-members

In Young Living, a member can terminate the membership anytime.

### 4. Nominal membership fee

Membership fee must be reasonable to the public. JAKIM said that this should involve administrative costs in enrolling a person to become a member and the costs of printing membership materials (e.g. ethical codes of conduct, starter kits, business tools, etc).

Accordingly, membership fee imposed without any consideration (e.g. starter kit) may tantamount to *riba al-fadl* and *riba al-nasiah*.

Young Living has no membership fee involved. A new member can select one of the enrolment options:

- Basic Starter Kit for S\$63
- Basic Plus Starter Kit for S\$118
- Premium Starter Kit for \$236

Those starter kits are meant to make the new recruits familiarize with Young Living products, services, sales techniques, sales aids and other training materials. They are meant for personal consumption only (i.e. not to be sold). There is also no compulsion for new members to buy them (if they are really not interested).

### 5. Intention of becoming a consumer

The company must make it clear to differentiate between a public consumer (who buys the goods at retail pricing for personal consumption) and a member consumer (who buys for themselves and selling them to others to earn legitimate commission). If there is no demarcation between the two, this will contradict Shariah.

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<sup>26</sup> At the request of the ex-member, provided they are still in good condition.

Young Living distinguishes both roles and responsibilities very well via its website and brochures, hence there is no confusion.

6. Aqad in direct selling

The contractual terms must be clearly stipulated. The contracts used in any MLM company can be one of the following:

Jua'lah

This relates to a more result-oriented reward system rather than a work-related reward system<sup>27</sup>.

For example, Mr Adam tells Ms Katherine that he will reward her \$1000 if she can get his son study medicine in Harvard Medical School. If the son indeed goes to that medical school without much effort put in by Ms Katherine, she will be rewarded \$1000. However, even if so much work is put in by Ms Katherine to ensure the son studies everyday to score for the exams, Mr Adam is unlikely to reward Ms Katherine in the event the son is declined from being admitted to that school.

Young Living applies this concept because the members will get rewarded based on the volume of actual sales generated.

Wakalah

This authorizes the members to act on behalf of the company. If a member approaches a customer to sell a product, that member is actually by proxy the company itself. The professionalism of the members will affect the reputation of the company; either positively or negatively.

As an agent, the members will act in the best interest of the company. Having said this, the members can also cease to be agents by terminating the contract with the company.

Young Living also applies this concept, which is the very reason why the company emphasizes on strict adherence to the code of ethics to prevent unnecessary misselling which could jeopardize its corporate image.

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<sup>27</sup> Work-related reward system is more akin to the *ujrah* concept.

### Wakalah bil ujah

This is a hybrid of an agency contract and *jua'lah*. The member is empowered to represent the company in promoting the goods and services. As a result of the sales revenue generated, the members are rewarded accordingly. In this hybrid contract, both parties are bound and none can terminate this contract without the consent of the other.

This best describes Young Living's *aqad* as it has both the agency contract and its reward system is result-oriented.

### 7. Contractual mutuality

JAKIM opined that both the MLM company and the members must have mutually consented to this scheme and the reward system. There must be no element of duress, undue influence, manipulation, concealment of information and the *aqad* must be executed at arm's length.

Young Living is transparent in its terms and conditions. There is adequate information in the Internet and brochures explaining the various products, terms and conditions; hence there is no *gharar* for the customer.

If a member is not happy with Young Living's products, services or compensation plans, he can terminate his membership anything without any costs involved.

### 8. Benefits of being a participant

Young Living has fulfilled the following conditions in which a member of an MLM company is entitled to the following:

- Receive either a discount of the usual retail price or promotion<sup>28</sup> via voucher or coupons;
- Get commissions based on product sales made by themselves or their downlines, based on concept of *jua'lah*; and
- Become an independent business owner of the MLM products.

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<sup>28</sup> Young Living has promotions almost every month. If a member has paid for a certain amount of products, he is entitled to a free gift of a specific essential oil (which usually has a retail price of SGD100).

9. Product criteria

Young Living products are not *ribawi* items and payment for and delivery of items is usually on spot basis<sup>29</sup>.

Young Living has over 300 products which are beneficial to society. In fact, its essential oils, being natural and food-grade quality and being an alternative medicine with no side effects, it has proven many doctors<sup>30</sup> that it is better choice than chemical-based pharmaceutical medicines.

<b>Essential Oils and Pharmaceuticals Compared</b>	
<b>Essential Oils</b>	<b>Pharmaceuticals</b>
<p><u>Properties</u></p> <ol style="list-style-type: none"> <li>1. Natural, wildcrafted or grown organically</li> <li>2. Hundreds of constituents, not all known</li> <li>3. Never two batches the same.</li> <li>4. Not patentable (God made)</li> </ol> <p><u>Effects and Consequences</u></p> <ol style="list-style-type: none"> <li>5. Restores natural function</li> <li>6. No adverse interactions</li> <li>7. Antiviral</li> <li>8. Improves intercellular communication</li> <li>9. Corrects and restores proper cellular memory (DNA)</li> <li>10. Cleanses receptor sites</li> <li>11. Builds the immune system</li> <li>12. Emotionally balancing</li> <li>13. Side effects beneficial</li> <li>14. Leads toward independence and wellness</li> </ol> <p><u>Philosophy/Paradigm</u></p> <ol style="list-style-type: none"> <li>15. Assumes wellness as natural state, invulnerable to illness</li> <li>16. Assumes body and mind capable of self-healing</li> <li>17. Integrated wholistically, body, mind, and soul as a unit</li> <li>18. Build natural defenses and let body deal with disease</li> <li>19. Treats internally at level of cellular intelligence</li> <li>20. Theistic, historic roots in religion when healers were priests</li> </ol>	<p><u>Properties</u></p> <ol style="list-style-type: none"> <li>1. Unnatural, synthetic chemically or genetically engineered</li> <li>2. One or two active ingredients, all of which are known</li> <li>3. Every batch the same (Purity)</li> <li>4. Patentable (man made)</li> </ol> <p><u>Effects and Consequences</u></p> <ol style="list-style-type: none"> <li>5. Inhibits natural function</li> <li>6. Many adverse interactions</li> <li>7. Usually not antiviral</li> <li>8. Disrupts intercellular communication</li> <li>9. Garbles and confuses cellular memory (DNA)</li> <li>10. Blocks receptor sites</li> <li>11. Depresses immune system</li> <li>12. Emotionally unbalancing</li> <li>13. Side effects harmful</li> <li>14. Leads toward dependence and chronic disease</li> </ol> <p><u>Philosophy/Paradigm</u></p> <ol style="list-style-type: none"> <li>15. Assumes natural state prone and vulnerable to illness</li> <li>16. Assumes body and mind need external assistance to heal</li> <li>17. Fragmented, treats body parts, mind and emotions separate</li> <li>18. Supplant natural defenses and attack disease itself</li> <li>19. Treats externally at level of gross symptoms</li> <li>20. Secular, historic roots in materialism motivated by money</li> </ol>

Extracted from <http://healthimpactnews.com/2013/why-essential-oils-heal-and-drugs-dont/>, accessed 21 July 2014

<sup>29</sup> Unless customer orders and pays online, the delivery will be done later via *salam* contract.

<sup>30</sup> Oliver Wendel Holmes, a 19th century writer, physician, and previously a Dean of Harvard Medical School, said, “If all the medicine in the world were thrown into the sea, it would be bad for the fish and good for humanity”. The “*medicine*” he was referring to was the pharmaceutical medicines (Tropical Traditions, 2014).



As depicted earlier, the abilities of natural oils are far superior to Western drug-based medicines.

Young Living products are of premium quality considering that an end-to-end process<sup>31</sup> put in place are as follows:

- Selection of specific seeds and plants that can produce essential oils
- Growing, harvesting and cultivating methods
- Oil distillation to extract the oils in pure concentrate
- Testing of oils to ensure acceptable levels of natural bioactive compounds in the oils extracted.
- Sealing<sup>32</sup> the essential oils in bottles before shipping them for sale

In conclusion, there is no doubt that Young Living sells a real useful product to society at a premium price. Some companies who engage in pyramid schemes use a “plain vanilla” product as a legal fiction to justify that they are engaging in legitimate business and circumvent the impression of doing business via mere recruitment.

Although pure therapeutic oils are generally free of *haram* ingredients, most of the Young Living’s essential oils are now in the process of getting either Kosher or *halal*-certified. This gives assurance that those products can be consumed by people of Semitic religions.

However, some supplements sold by Young Living use gelatin<sup>33</sup> in the softgels which Muslims must avoid. This is one area of concern<sup>34</sup> Young Living must look into. In another example, BLM™ is supports normal bone and joint health, but it contains chicken collagen in which its halal status is not yet established.

## 10. Product pricing

The prices of the MLM products must not be too expensive beyond what a reasonable man would expect. Prices may differ based on the types and quality of products and availability of after-sales services (if any).

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<sup>31</sup> All Young Living essential oil products are subject to the Seed to Seal® process to meet the YLTG™ standard. Unlike other oils found in stores which are perfume-grade, Young Living essential oils are plant-grade oils. This means that the latter’s oils are of high therapeutic grade that the oil can be applied through inhalation, application or even orally for healing, cleansing and therapy.

<sup>32</sup> It is surprising to note that these Young Living essential oils do not have an expiry date. This shows the purity of the natural oils extracted.

<sup>33</sup> It comprises beef that is not slaughtered in accordance to Shariah

<sup>34</sup> There were discussions between Young Living senior leaders on this matter. As plant-based gelatin is are genetically modified, the company is finding alternatives.

The pricing of Young Living essential oils varies based on the types of oils. They updated the product list from time to time. The latest product price list is dated 17 March 2014. In fact, many of the members have experienced the medicinal, healing and therapeutic effects of essential oils and hence, they do not paying for a high price.

#### 11. Reward system

Based on either *jua'lah* or *hibah*, the reward system can be in the form of commission, bonus or other economic benefits agreed between the members and the MLM company and it must be based solely on product sales and not on recruitment.

It is permissible for an upline to get rewarded from sales generated from any of its downlines based on *jua'lah* as both parties agree to this arrangement. The rewards should be derived from the sales of the goods and the terms and conditions relating to the reward system should be clearly stipulated.

Young Living's reward system is solely based on product sales; it also has a self-explanatory compensation pamphlet that it shares with all its members.

- New members – Unilevel commission from 4% to 8% of sales
- Amateurs - Unilevel commission from 4% to 8% of sales and general commission from 2.5% to 3% of sales
- Professionals - Unilevel commission from 4% to 8% of sales, general commission from 2.5% to 3% of sales and generation leadership bonus of 6.25% of all sales paid out in shares

The only fee imposed by Young Living is the monthly maintenance fee to cover administrative costs (e.g. accounting, processing, account maintenance, etc.). Depending on the commissions earned, the fee imposed per month ranges from S\$1 to S\$5 only. This is acceptable in Shariah.

Where there are queries on the compensation plans, products or services, Young Living has an accessible customer service hotline.

#### 12. Consultation with Shariah advisory

For an MLM company to be certified as Shariah-compliant, JAKIM said it must have at least appointed two (2) Muslim Shariah advisors who have at least a degree in *Usual Fiqh* or *Muamalah* and experience working relating to Islamic

transactions. To prevent any possible conflicts of interest, these Shariah advisors should be hired by the MLM company as independent consultants. They should neither be staff of the MLM company nor have any relatives working in that company.

Young Living does not have a Shariah advisory committee. In Singapore, unless a company is a bank or financial institutions<sup>35</sup>, it should suffice for a trading company to have its products *halal*-certified by the Islamic Religious Council of Singapore. Since Young Living will soon be implementing a similar strategy (i.e. getting its products *halal*-certified and kosher-certified), this should not be a major concern.

### 13. Training programmes

A good MLM company should invest in training all its members, both new recruits and professional members. The training should be done regularly either free of charge or based on a nominal fee. The objectives of the training are to:

- Give an overview of its products, especially those that require technicalities and meticulous attention (e.g. treatment of cancerous cells).
- Facilitate the selling process so that members can maximize the product sales without compromising the code of ethics of doing MLM business.

For example, in July 2014 alone, there are fourteen (14) seminars and workshops – all conducted by Young Living senior members and all of them are free for both members and the public. Examples are:

- 1 July 2014 – Clinical Understanding & Safety of Using Essential Oils On the Body of Children & Adults
- 7 July 2014 – Healthy Body Through Healthy Emotions
- 30 July 2014 – Detox & Cleanse to Build & Maintain Healthy

Young Living also provides ongoing regular training programmes through conventions, seminars, and newsletters for both members and the public. This ensures that people know how to make full use of the essential oils for their health well-beings.

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<sup>35</sup> Examples of financial institutions in Singapore which have their Islamic finance operations governed by Shariah Committees are Maybank Singapore, CIMB Singapore, Financial Alliance and HSBC Takaful.

Section 4 of Young Living Singapore Pte Ltd Independent Distributor Policies & Procedures (effective Jan 2013) detailed out the upline's responsibilities which include:

- Ongoing supervision, training and sales<sup>36</sup>
- Non-disparagement
- Reporting policy violations

For a training programme to be Shariah-compliant, it should ensure there is a proper socializing manner imposed on both genders. For Young Living, there is no intimacy between members of the opposite gender, but there are instances that some of the members' functions (e.g. opening ceremony) in Singapore have the serving of wine and non *halal*-certified luncheon.

#### 14. Return and buy-back policy

A legitimate MLM company will have prepared a written contract containing return and buy-back policy. According to JAKIM, if the member is unable to sell the products within 6 months, the company must buy back the good and paying the member at least 90% of the amount.

Young Living does not practice inventory front-loading. Members can buy products in whatever types and quantities they want. A member who is not satisfied with the products can return any sealed or opened product within sixty (60) days after shipment for a full refund. Where credit sales are concerned, the return policy is extended to ninety (90) days. Members who receive the goods from customers must return them, within ten (10) days after receipt from the latter, to the company. The return policy is stated in the tax invoice every time a member buys a product from Young Living. The policy is also mentioned in Section 8 (Product Returns) of Young Living Singapore Pte Ltd Independent Distributor Policies & Procedures (effective Jan 2013) where even the procedures for returns are specified to prevent disputes.

#### 15. Termination policy

The MLM company should also set down clear procedures, terms and condition should the member decides to withdraw completely from the scheme.

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<sup>36</sup> Uplines are considered seniors to the junior members. The former must always be contactable and able to regularly advise, train, supervise and communicate with the latter through any means (e.g. meetings, telephone, emails). Downlines can complain to Young Living Customer Care Department if they are not getting adequate support from their uplines.

Young Living has termination policy in the Member Agreement + Essential Rewards Enrolment Form (Singapore). Termination can be done via three (3) ways below and no fees or penalties are imposed:

1. The member provides a written notice to the company on his intention to terminate the agreement; or
2. The member's account with the company has been dormant for a period of twelve (12) months; or
3. There is a breach of any of the terms of the agreement

Upon termination of the agreement, the ex-member:

- Lost his rights to buy Young Living products at distributor's pricing (i.e. he can still buy at retail price though);
- Ceased from being able to represent himself as a distributor of Young Living; and
- Lost his rights receiving future bonuses, commissions, etc (as he is considered withdrawn from the scheme)

### Singapore Legislation

Eight (8) conditions stipulated in the Multi-Level and Pyramid Selling (Excluded Schemes and Arrangements) (Amendment) Order 2001 will give effect to an MLM company to be exempted from the Multi-level Marketing and Pyramid Selling (Prohibition) Act and hence making the company a legitimate business company:

1. No payment in order to participate

Young Living has a three-step enrolment process:

- Enter personal information and
- Choose any 1 of the 3 basic<sup>37</sup> starter kits at price of \$40, \$75 or \$150;  
or
- Choose a Essential<sup>38</sup> Rewards Kit at \$139

This shows that there is some degree of payment for anyone to participate as a member. Having said this, the legislation clarified that purchase of sales

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<sup>37</sup> The 1<sup>st</sup> kit standard items i.e. Stress Away 5ml with roller, 2 NingXia Red samples, sample packs of Lavender, Peppermint, Peace & Calming, Lemon, Thieves, distributor resource guide, etc. The 2<sup>nd</sup> and 3<sup>rd</sup> kits which are slightly more expensive include a room diffuser and more essential oils.

<sup>38</sup> The Home Essential Rewards Kit includes (among other things) a hand purifier, foaming hand soap, lemon essential oil, toothpaste and dental floss. Other rewards kit have different items (based on different needs of different consumers e.g. Beauty, Wellness, Lifestyle, Balance, etc) but collective cheaper than if bought individually.

demonstration equipment or materials at a reasonable price is allowed and they must be meant for personal consumption only. Hence, there should not be commission arising from this sale. The intention is to prohibit upfront or inventory loading (which is mentioned earlier) to protect the members from potential losses in the event they cannot sell those items.

After further investigation, the starter and rewards kit mentioned by Young Living are actually not compulsory for new members to buy, hence giving them the freedom to decide the type and quantity to buy and yet enjoy preferential member pricing.

2. Method by which benefits accrue

The benefit is only legal if there is an actual transaction relating to the goods or services, either by the members themselves or their direct or indirect downline.

Young Living's method is based on actual transactions:

i. Fast Track Bonus

Members will earn 25% (maximum S\$200) on each of the newly enrolled distributors' orders made for the first 3 months.

ii. Start Living Bonus

Members will earn S\$25 cash when the newly enrolled distributor orders the Premium Starter Kit (meant for personal consumption only).

iii. Retail Earnings

When retail customers buy products through the member, the commission will be 24% of the difference between the retail and distributor pricing.

3. No benefits to be paid for recruitment

If an MLM company compensates a member based on the number of newly enrolled distributor, this is illegal as this represent a pyramid scheme. Young Living does not practice this.

4. No representations on accrual of benefits

An MLM company cannot represent to potential members that rewards is based solely on recruitment of new members or that the goods are merely a facade to disguise the reward system as legitimate.

5. No income claims

An MLM company is prohibited from making unwarranted claims, be it verbal or written, such as, anyone who joins the scheme will be able to make an average income of, SGD10,000 a month. Young Living Singapore Pte Ltd Independent Distributor Policies & Procedures (effective Jan 2013) mentioned under "Income Claims (Section 3.9.3)" *that a member shall not "...make income projections, income claims or disclose his/her Young Living income<sup>39</sup>..."* to comply with local laws.

6. No false or misleading representations or material omissions

Young Living is very careful in telling its members not to misrepresent the products, unless the members are authorized medical professionals or their claims can be backed by scientific studies. The company has released a Product Claims Guidelines to protect consumers and ensure that members make true yet safe claims on the products.

For example, arising from recent studies of cancer research (BBC, 2010), frankincense is able to stop cancer cells from spreading and induces those cancerous cells to be inactive. Having said this, despite Young Living selling pure frankincense essential oils, members are urged not to misrepresent that its products can cure cancer. Representing that Young Living frankincense essential oil can stimulate the immune system and maintaining the overall wellness, is however, acceptable.

The Young Living Singapore Pte Ltd Independent Distributor Policies & Procedures (effective Jan 2013) mentioned under "Income Claims (Section 3.9.2) that *"anyone improperly diagnosing or prescribing Young Living's products may jeopardize the future of Young Living and all of its distributors and therefore will be subject to termination of your distributorship"*.

7. Sixty-day compulsory refund period

Where goods bought by members are unable to be sold within sixty (60) days, MLM companies are required to buy them back, as long as the goods are not perished by then and the goods are still in good condition.

Young Living has the same policy and refund period.

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<sup>39</sup> This includes display of cheques, copies of cheques, bank statements or tax records.

## 8. Compulsory information in writing

This refund policy must be disclosed explicitly to members on the onset when the products are bought. It can be evidenced in the receipt or invoice. Young Living mentions this policy in any receipt bought by customers or members.

Young Living commits to strict adherence to the DSA Code of Practice. Young Living has currently achieved DSA membership status in Europe and UK. Although it has not achieved DSA membership status specifically in Singapore, this could be probably attributed to the fact that Young Living has just opened its office here in 2010.

In conclusion, although Young Living not owned by Muslims, its business model is very likely to be a Shariah-compliant MLM company, except that it has to work its way to ensure that all the products are *halal*-certified and its operations should be supervised by an independent Shariah board. For any company functions organized by Young Living, food and beverages served should be *halal*-certified. To date, I have yet to find any MLM company who has a Shariah supervisory board to have oversight on the business operations.

## E. Conclusion

يَأْتِي عَلَى النَّاسِ زَمَانٌ، لَا يُبَالِي الْمَرْءُ مَا أَخَذَ مِنْهُ أَمِنَ الظَّلَالِ أَمْ مِنَ الْحَرَامِ

*A time will come when one will not care how one gains one's money, legally or illegally.*  
(صحيح البخاري Vol. 3, Book 34, Hadith 275)

While an MLM can easily be lured to be unethical, fraudulent and recruitment-centered, Koehn (2001) suggested the following acid tests:

1. Performance of the members must be monitored to ensure that their rewards are solely based on retail sales regardless of how many people they have recruited.
2. Implement clear written buy-back and exit policies so members are not burdened with excess goods on-hand and they can leave the scheme without any delay tactics made by the company.
3. Ensure that the fees paid by members for the right to sell the goods are kept affordable to society.
4. Make purchases of training materials voluntary

Having said the above, religious guidelines should also be observed prior to participating any of those schemes. Ustadh Mohd Kamal Mokhtar (2001) advised that one should not be a *muqallid* (i.e. a blind follower who also follows anyone without



studying the various scholarly opinions). Where in doubt, religious scholars must be consulted.

As it is possible for legitimate ethical MLM businesses to be in line with Shariah, they should be able to serve societal needs and fulfill the objectives of Shariah for the *ummah*. According to Spire Research and Consulting Pte Ltd (2011), an ethical and legitimate MLM businesses can succeed for ageing societies, health-conscious people and environmental-friendly advocates. Other possible benefits for society could be as follows:

- Low inherent risks – No membership fees or and no stress in pushing sales. Now, some MLM companies no longer require members to stack up inventory.
- Demand for good quality products – MLM products are generally of better quality than competitors' products found in retail outlets.
- Sideline income – People would love extra money to pay off monthly recurring bills
- No marketing staff – Unlike a trading company who employs and pays workers' salaries, members of MLM can work independently without any fixed timing.

In conclusion, although there are many scams in today's society, there are also many business opportunities that can really help people earn an extra bit of sideline income. MLM is one of them, as long as proper governance is in place. If the business of the MLM is in line with Shariah, the commissions or economic benefits will be *halal* to the *ummah*, bring nothing but blessings from the Divine.

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