

# Multi-level marketing

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Marketing
<b>Key concepts</b>
Product • Pricing Distribution • Service • Retail Brand management Account-based marketing Marketing ethics Marketing effectiveness Market research Market segmentation Marketing strategy Marketing management Market dominance Marketing process outsourcing
<b>Promotional content</b>
Advertising • Branding • Underwriting Direct marketing • Personal Sales Product placement • Publicity Sales promotion • Sex in advertising
<b>Promotional media</b>
Printing • Publication • Broadcasting Out-of-home • Internet marketing Point of sale • Promotional items Digital marketing • In-game In-store demonstration • Brand Ambassador Word of mouth • Drip Marketing

**Multi-level marketing (MLM)**, (also called **network marketing**,<sup>[1] [2] [3] [4] [5]</sup> **direct selling**,<sup>[6] [3]</sup> and **referral marketing**,<sup>[7] [8] [9] [10] [11] [12]</sup>) is a term that describes a marketing structure used by some companies as part of their overall marketing strategy. The structure is designed to create a marketing and sales force by compensating promoters of company products not only for sales they personally generate, but also for the sales of other promoters they introduce to the company, creating a downline of distributors and a hierarchy of multiple levels of compensation.

The products and company are usually marketed directly to consumers and potential business partners by means of relationship referrals and word of mouth marketing.<sup>[13]</sup>

MLM companies have been a frequent subject of controversy as well as the target of lawsuits. Criticism has focused on their similarity to illegal pyramid schemes, price-fixing of products, high initial start-up costs, emphasis on recruitment of lower-tiered salespeople over actual sales, encouraging if not requiring salespeople to purchase and use the company's products, potential exploitation of personal relationships which are used as new sales and recruiting targets, complex and sometimes exaggerated compensation schemes, and cult-like techniques which some groups use to enhance their members' enthusiasm and devotion. Not all MLM companies operate the same way, and MLM groups have persistently denied that their techniques are anything but legitimate business practices.

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## Setup

Independent, unsalaried salespeople of multi-level marketing, referred to as distributors (or associates, independent business owners, dealers, franchise owners, sales consultants, consultants, independent agents, etc.), represent the company that produces the products or provides the services they sell. They are awarded a commission based upon the volume of product sold through their own sales efforts as well as that of their downline organization.

Independent distributors develop their organizations by either building an active customer base, who buy direct from the company, or by recruiting a *downline* of independent distributors who also build a customer base, thereby expanding the overall organization. Additionally, distributors can also earn a profit by retailing products they purchased from the company at wholesale price.

This arrangement of distributors earning a commission based on the sales of their independent efforts as well as the leveraged sales efforts of their downline is similar to franchise arrangements where royalties are paid from the sales of individual franchise operations to the franchiser as well as to an area or regional manager. Commissions are paid to multi-level marketing distributors according to the company's compensation plan. There can be individuals at multiple levels of the structure receiving royalties from a single person's sales.

## Income levels

Several sources have commented on the income level of specific MLMs or MLMs in general:

- The Times: "The Government investigation claims to have revealed that just 10 per cent of Amway's agents in Britain make any profit, with less than one in ten selling a single item of the group's products."<sup>[14]</sup>
- Scheibeler, a high level "Emerald" Amway member: "UK Justice Norris found in 2008 that out of an IBO [Independent Business Owners] population of 33,000, 'only about 90 made sufficient incomes to cover the costs of actively building their business.' That's a 99.7 percent loss rate for investors."<sup>[15]</sup>
- Newsweek: based on Mona Vie's own 2007 income disclosure statement "fewer than 1 percent qualified for commissions and of those, only 10 percent made more than \$100 a week."<sup>[16]</sup>
- Business Students Focus on Ethics: "In the USA, the average annual income from MLM for 90% MLM members is no more than US \$5,000, which is far from being a sufficient means of making a living (San Lian Life Weekly 1998)"<sup>[17]</sup>
- USAToday: "While earning potential varies by company and sales ability, DSA says the median annual income for those in direct sales is \$2,400."<sup>[18]</sup>

## Legality and Legitimacy

MLM businesses operate in the United States in all 50 states and in more than 100 other countries, and new businesses may use terms like "affiliate marketing" or "home-based business franchising". However, many pyramid schemes try to present themselves as legitimate MLM businesses.<sup>[6]</sup>

The FTC states "Steer clear of multilevel marketing plans that pay commissions for recruiting new distributors. They're actually illegal pyramid schemes. Why is *pyramiding* dangerous? Because plans that pay commissions for recruiting new distributors inevitably collapse when no new distributors can be recruited. And when a plan collapses, most people-except perhaps those at the very top of the pyramid-end up empty-handed."<sup>[19]</sup>

In a 2004 Staff Advisory letter to the Direct Selling Association, the United States Federal Trade Commission (FTC) states:

Much has been made of the personal, or internal, consumption issue in recent years. In fact, the amount of internal consumption in any multi-level compensation business does not determine whether or not the FTC will consider the plan a pyramid scheme. The critical question for the FTC is whether the revenues that primarily support the commissions paid to all participants are generated from purchases of goods and services that are not simply incidental to the purchase of the right to participate in a money-making

venture.<sup>[20]</sup>

The FTC warns "Not all multilevel marketing plans are legitimate. Some are pyramid schemes. It's best not to get involved in plans where the money you make is based primarily on the number of distributors you recruit and your sales to them, rather than on your sales to people outside the plan who intend to use the products."<sup>[21]</sup> and states that research is your best tool, giving eight steps to follow:

- 1) Find — and study — the company's track record
- 2) Learn about the product
- 3) Ask questions
- 4) Understand any restrictions
- 5) Talk to other distributors (beware skills)
- 6) Consider using a friend or adviser as a neutral sounding board or for a gut check
- 7) Take your time
- 8) Think about whether this plan suits your talents and goals<sup>[21]</sup>

However, there are people who hold that **all** MLMs are nothing more than pyramid schemes even if they are legal,<sup>[7]</sup><sup>[22]</sup> <sup>[23]</sup> <sup>[24]</sup> rendering the whole issue of a particular MLM being legal moot.

## Criticism of MLM

The Federal Trade Commission (FTC) issued a decision, *In re Amway Corp.*, in 1979 in which it indicated that multi-level marketing was not illegal *per se* in the United States. However, Amway was found guilty of price fixing (by requiring "independent" distributors to sell at the low price) and making exaggerated income claims.<sup>[25]</sup> <sup>[26]</sup>

The FTC advises that multi-level marketing organizations with greater incentives for recruitment than product sales are to be viewed skeptically. The FTC also warns that the practice of getting commissions from recruiting new members is outlawed in most states as "pyramiding".<sup>[27]</sup> In April 2006, it proposed a Business Opportunity Rule intended to require all sellers of business opportunities—including MLMs—to provide enough information to enable prospective buyers to make an informed decision about their probability of earning money. In March 2008, the FTC removed Network Marketing (MLM) companies from the proposed Business Opportunity Rule:

The revised proposal, however, would not reach multi-level marketing companies or certain companies that may have been swept inadvertently into scope of the April 2006 proposal.<sup>[28]</sup>

Walter J. Carl stated in a 2004 *Western Journal of Communication* article that "MLM organizations have been described by some as cults (Butterfield, 1985), pyramid schemes (Fitzpatrick & Reynolds, 1997),<sup>[29]</sup> or organizations rife with misleading, deceptive, and unethical behavior (Carter, 1999), such as the questionable use of evangelical discourse to promote the business (Hopfl & Maddrell, 1996), and the exploitation of personal relationships for financial gain (Fitzpatrick & Reynolds, 1997)".<sup>[29]</sup> <sup>[30]</sup>

MLM's are also criticized for being unable to fulfill their promises for the majority of participants due to basic conflicts with Western cultural norms.<sup>[31]</sup> There are even claims that the success rate for breaking even or even making money are far worse than other types of businesses:<sup>[32]</sup> <sup>[33]</sup> <sup>[34]</sup> "The vast majority of MLM's are recruiting MLM's, in which participants must recruit aggressively to profit. Based on available data from the companies themselves, the loss rate for recruiting MLM's is approximately 99.9%; i.e., 99.9% of participants lose money after subtracting all expenses, including purchases from the company."<sup>[32]</sup> In part, this is because encouraging recruits to further "recruit people to compete with [them]"<sup>[7]</sup> leads to "market saturation."<sup>[35]</sup>

Because of encouraging recruits to further recruit their competitors, some people have even gone so far as to say at best MLMs are nothing more than legalized pyramid schemes<sup>[7]</sup> <sup>[22]</sup> <sup>[23]</sup> <sup>[36]</sup> with one stating "Multi-level marketing companies have become an accepted and legally sanctioned form of pyramid scheme in the United States"<sup>[22]</sup> while another states "Multi-Level Marketing, a form of Pyramid Scheme, is not necessarily fraudulent."<sup>[24]</sup>

## See also

- List of multi-level marketing companies
- Direct selling
- Pyramid scheme
- Passive income

## External links

- Federal Trade Commission article <sup>[37]</sup>

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