

Multilevel Analysis for Applied Research: It's Just Regression! (Methodology in the Social Sciences)

What Is Multilevel Marketing (MLM)?

The term marketing (MLM) refers to a strategy used by some direct sales companies to sell products and services. MLM encourages existing members to promote and sell their offerings to other individuals and bring on new recruits into the business. Distributors are paid a percentage of their recruits' sales. New recruits become the distributor's network or downline and are, in turn, encouraged to make sales to earn money.

Many MLM schemes are legal, but there are also illegal operations that are run as pyramid schemes. This has cast some negative light on legitimate MLM businesses.

Key Takeaways Multilevel marketing is a legitimate business strategy used by some direct sales companies to sell products and services.

Existing members are encouraged to promote and sell their offerings to other individuals and bring on new recruits into the business.

Participants are paid a percentage of their recruits' sales.

Members at all levels receive some form of commission, which means the more layers there are, the more money people can earn.

The FTC investigates MLM programs to ensure they don't operate as pyramid schemes, which are illegal.

1:58 Multi-Level Marketing

Understanding Multilevel Marketing (MLM)

Multilevel marketing is a legitimate business strategy that is commonly used by businesses that rely (heavily) on sales to generate revenue. Unlike traditional sales channels, multilevel marketing programs involve the use of networks for sales and to recruit new participants. As such, they're often referred to as network marketing.

Here's how it works. Individuals are brought into the business as contractors, independent business owners, distributors, or direct salespeople. These people are then tasked with selling the company's products and/or services to others, including family and friends. Sales can be done in person or online. They are given a commission for every sale they make.

Participants are also encouraged to bring in or recruit others into the program as participants. While they may not be pressured to do so, signing up new contractors provides a financial incentive for participants, who receive a percentage of the sales of their recruits. and their recruits, and of their recruits, and so on.

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There can be hundredsâ€”even thousandsâ€”of participants, depending on the size of a company. Members at all levels receive some form of commission, as long as the chain keeps going. The more layers there are, the more money people can make. Think of it as a pyramid. The person or people at the top earn the most while those who sit toward the bottom earn fewer commission dollars. Relatively few, though, generally earn any meaningful income from their efforts.

Is MLM Right For You? Because multilevel marketing plans are commission-based, the participants do not receive salaries. That means that MLM businesses are often best-suited for people with an entrepreneurial spirit, who can set their own goals and schedules, who are good at sales, and who can effectively network with others not only to sell products but to recruit new marketers.

Special Considerations

Although it is legal, multilevel marketing is often controversial. One problem is pyramid schemes that use money from new recruits to pay people at the top rather than those who perform the work. These schemes (and the people behind them) take advantage of others by pretending to be engaged in legitimate multilevel or network marketing. You can spot pyramid schemes by their greater focus on recruitment than on product sales.

An issue in determining the legitimacy of a multilevel marketing company is whether it sells its products primarily to consumers or to its members who must recruit new members to buy their products. If it is the former, the company is likely a legitimate multilevel marketer. If it is the latter, it could be an illegal pyramid scheme.

Relatively few earn meaningful incomes from their efforts. To some observers, this reflects the characteristics of a pyramid scheme. That's why the Federal Trade Commission (FTC) has been investigating multilevel marketing companies for several decades.

You can often spot pyramid schemes by their far greater focus on recruitment than on product sales.

Real-World Examples of Multilevel Marketing

There are a lot of examples of multilevel marketing in the corporate world. The following are just two of the most

popular and well-known companies that operate in this sphere.

Amway

Amway is a well-known direct sales company that uses MLM to generate revenue. The company, which sells health, beauty, and home care products in more than 100 countries, reported \$8.9 billion in sales conducted by its independent business owners in 2021. This makes it the largest MLM business in the world, by revenue.

Herbalife Nutrition

Herbalife Nutrition is a high-profile MLM company that manufactures and distributes weight-loss and nutritional products. The company argues that most of its revenue is from product sales—not recruitment. It also says it offers members many protections, such as a money-back guarantee, so they will not be stuck with products they could not sell.

There have been multiple lawsuits against Herbalife accusing it of misrepresenting its sales practices, including a settlement reached with the FTC in 2016, under which it had to restructure its business.

Activist investor William Ackman also shed a national spotlight on the company by shorting \$1 billion of the company's stock in 2012. Ackman accused the company of operating a pyramid scheme, backing up his allegations with a bet that the stock price would fall under the weight of the scam. He gave up on that bet in 2018. The stock rose dramatically from that point through 2021, however it has since fallen to recent lows in 2022.

What Is MLM, and Is it Legal? Broadly speaking, multilevel marketing is a sales structure where members of a company are encouraged to recruit new members. Once recruited, this salesperson receives a cut of their recruiter's sales. At the same time, each salesperson profits from the sale of a given product. MLMs are often legal, legitimate businesses whose distributors earn money from the sale of actual products and from commissions on products sold by distributors that they recruit.

Is Multilevel Marketing a Pyramid Scheme? Multilevel marketing is controversial and often compared to pyramid schemes. While some multilevel marketing operations are legal, others have come under investigation. This typically occurs when the majority of the operation's profits funnel up to the top, leaving little for the rest of its members. When an

organization focuses primarily on recruitment, rather than selling products, this may also signal that it is operating under a pyramid scheme. Sometimes, members of these schemes will number in the hundreds or even thousands.

Image by Julie Bang © Investopedia 2019

What Are Some Red Flags to Look Out for an Illegal MLM Pyramid Scheme? The Federal Trade Commission (FTC) warns people to take note of, and avoid, MLM promoters who:

- Make extraordinary claims of enormous earning potential

- Try to persuade people that recruiting others is where the real money lies

- Pressure people to get involved without learning more about the company

- Make it clear that an opportunity will be lost unless people get in immediately

Another warning sign is seeing existing distributors who continue to buy products that they can never sell so that they can qualify for some kind of reward.

Reference

[Demystifying Research for Pre-Medical Students: A Comprehensive Guide to Succeeding in Your Research Journey](#)

[Theoretical Basis for Nursing](#)