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Recommended Citation
Available at: https://scholarsarchive.byu.edu/marriottstudentreview/vol2/iss2/9

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The Benefits and the Risks of Multi-Level Marketing

By Jacob Thorpe

About two years ago, I was recovering from a bout of a fairly serious illness. I was bed-ridden for over a month. It took me almost two months to feel healthy enough to even go back to work. When I returned, I suffered from many of the symptoms that persisted, such as fatigue, nausea, and headaches. One particularly tough day, I made a mention of this to a coworker of mine. A lady at the desk next to me overheard me talking about my situation. Before I could even process what was happening to me, I was being swarmed by middle-aged women who doused me in the sharp scents of eucalyptus and peppermint. They explained to me the numerous healing properties of these oils, and that before I knew it, I’d be feeling back to my old self.

Not one month later, my mother-in-law had a cold. Some well-intentioned ladies in her neighborhood caught wind and had brought over to her an essential oil diffuser along with the priceless frankincense oil, which along with strengthening the immune system, has “been known to prevent cancer” (at least that’s what they said). While I am not here to refute the validity of homeopathic remedies, I do believe that although the business models of these multi-level marketing companies create many jobs and even financial stability for some distributors, inherent risks exist that we must be wary of.

Multi-level marketing (MLM) is a way that some companies market their products and services by means of self-employed distributors who typically work from home, sell products to end consumers, and recruit, motivate, and educate new distributors to do the same. These distributors can also make money by recruiting and training other distributors, creating something called a “downline” from which they will earn an override on their sales that they make as well as their downline and so on and so forth (Grob & Vriens, 2017). This pyramid-shaped hierarchy is utilized in almost every direct-selling company because of its effective way of motivating and incentivizing distributors to grow their own business.

Utah, especially Utah County, has become a hot bed for MLM’s. Capitalizing on the close-knit sociality that exists especially in Utah County, members of the community are caught up in the vision of making lots of money fast! These MLM’s not only include essential oils, but also...
encompass door-to-door sales companies. MLM business models incentivize their salespeople to bring more sellers to their companies. Because of the closer-than-average communities that exist in Utah County and the unique religious climate, people are more likely to participate in and support their friends in their efforts to grow their own business.

Benefits of an MLM Business Model

Multi-level marketing has some clear benefits that make it not only profitable, but also attractive to potential members. First, participants are often referred to as “business owners.” The idea that somebody can join an organization, gain a support group, and run their own company is obviously extremely attractive. They can essentially run their own independent business while enjoying the camaraderie that exists in these organizations. Those who do it well are able to make an excellent income, gain a support system, and create financial security moving forward. These companies will typically have a large geographical footprint, and many of these companies do extremely well overseas because of their ability to provide opportunity to third- and second-world countries.

Another popular type of multi-level marketing company is the door-to-door selling business, which is incredibly popular in Utah. Drawing upon the throngs of returned LDS missionaries who are not intimidated by the prospect of knocking on strangers doors, door-to-door companies are able to give students an opportunity to leave home for a summer and make a solid income which they can use throughout the year as they go to school. Not only can they make a lot of money fast, but they also can recruit friends to sell with them. The recruiters of these new employees receive an override on the sales of these recruits. By increasing their downline, sales representatives can actually make more money in the long run than the money that they directly make from their sales.

Dangers of an MLM Business Model

While the benefits of MLMs are clear and indisputable, inherent dangers exist whenever this direct selling takes place. MLM’s give regular people the opportunity to “own their own business.” As I previously stated, homeopathic remedy companies in the area are great examples of this. Despite best efforts of these companies to protect their reputation and credibility, their business model makes it near impossible to ensure integrity in each transaction with their employees. For example, enthralled with visions of a new millionaire lifestyle, Debbie from book club has the chance to sell product to her friends, associates, and members of the PTA. In these MLM’s, there isn’t any oversight in the individual transactions. In other words, Debbie can tell her friend that “peppermint oil cured my son’s ADD.” There is no FTC to enforce integrity in this transaction.

Before long, after hearing of Debbie’s monthly residual income, Debbie’s friend decides that she too wants to “own her own business.” Unfortunately, because of Debbie’s statement that peppermint oil cured her son’s ADD, the friend innocently perpetuates the unconfirmed claim, and her whole downline sustains its unstoppable momentum.

In door-to-door sales, the integrity of the sale is the sole responsibility of the salesperson. For all the effort these direct sales companies put into company culture and values, these organizations have no ability to regulate or monitor the claims that these salespeople make. The FTC has attempted to enact certain remedies for this. In door-to-door sales, because they are unexpected encounters, the FTC has created something called the “Cooling-Off Rule.” The rule gives you a three-day right to cancel a sale made at someone’s home or workplace, or at a seller’s temporary location — like a hotel room, convention center, fairground, or restaurant (Tressler, 2015). This provides a grace period where buyers have the opportunity to change their minds. Nonetheless, unethical direct selling persists as enthusiastic salespeople will say whatever customers want to hear in order to make the big sale.

Because of the direct sales piece of the MLM business model, monitoring and managing the validity of the advertising claims of their employees is nearly impossible. In the case of Debbie from book club, her inaccurate perception and communication of the benefits of her product could very well convince somebody to invest as a distributor. Regardless of whether or not the company intends to claims these claims need to be perpetuated to drive revenue, the purported claims by its distributors do impact its reputation and credibility with the general public who recognize the invalidity, creating a very uncomfortable situation with consumers. Furthermore, I am confident that Debbie’s company’s CEO would be equally as uncomfortable if he heard the enthusiastic claims that Debbie made. Unfortunately, despite the countermeasures that have been enacted, neither the CEO nor the FTC can monitor Debbie and her downline.

Similarly, despite the effort to create a door-to-door team culture of integrity and honesty, a company’s CEO cannot follow their sales reps around, ensuring their honesty in the transactions that they conduct to pad their pockets. Sales reps can act unethically so long as the person buying their product doesn’t realize the dishonesty or doesn’t make a fuss about it. Because of situations like these, we must be extremely cautious in the validity of the claims that people make, especially in situations where the advertising is by mouth (direct selling) and not by paid-for advertisements, such as print or online.

Conclusion

While the benefits of an MLM business model are indisputable, inherent risks exist that not only put in question the validity of direct sales interactions, but also can create ethical and legal dilemmas. Are essential oils essential? I don’t know. What I do know is that, especially in Utah, it is absolutely imperative to understand the logistics and the methods behind MLM’s so that due diligence can be given and wise decisions can be made. Be aware of the unique tendencies in direct sales companies when assessing opportunities and products. Cordial social interactions do not equate to becoming a part of somebody’s downline, nor purchasing product in an effort to support them. Be wary of outlandish claims in direct sales. But most of all, do your research. Being an educated consumer is the best way and only way to navigate the unique risks found in multi-level marketing.

Notes


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