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MLM Explained. The facts about multi-level marketing, network marketing, and direct selling

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MLM Explained

The facts about multi-level marketing, network marketing, and direct selling

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How can this document help you?

Multi-level marketing (MLM) is such a complex subject (often deliberately so, so people can't understand how it operates), and people attempting to research or write about the industry often have many of the same questions.

To answer these questions we have prepared this document. Its purpose is to give you a comprehensive resource to:

- Understand how MLMs work and why we believe they are so dangerous
- Access quality resources for further reading and research

It has been prepared by Claudia Groß, Assistant Professor at the Radboud University Nijmegen, with the assistance of Hannah Martin, the founder of Talented Ladies Club.

The document is based on several years of university-level research into the MLM industry, and extensive investigations into individual companies (including interviews with victims).

You are welcome to use information from this document and the resource links we provide at the end. If you quote from it, we ask you to credit the authors (Claudia Groß, Assistant Professor at the Radboud University Nijmegen, and Hannah Martin, the founder of Talented Ladies Club).

This document comprises five sections:

1. What are direct selling, network marketing, and multi-level marketing (MLM)?
2. The six biggest problems of MLM
3. Frequently asked questions about MLM
4. Example case studies
5. Resources for further research

If you would like further information or to speak with Claudia or Hannah about MLMs (we are happy to provide information for media and academic use) you can contact us at:

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What are direct selling, network marketing, and multi-level marketing?

'Direct selling' simply means retailing products or services without a retail store but with self-employed contractors. The direct sellers are often called 'distributors' but different companies use a variety of different terms, such as 'consultants', 'ambassadors' or 'independent business owners'. The sale can take place at the front door of people's homes ('door-to-door sale'), via product parties in private homes, or online (webinars or webshops).

Nowadays, almost all direct selling companies work as 'network marketing' or 'multi-level marketing' company – collectively referred to as MLM in this document. Exemplary companies are Amway, Avon, Herbalife, JuicePlus+, NuSkin, Younique or Vorwerk. In these companies distributors can both sell companies' products or services to consumers and recruit more distributors who can themselves sell products and recruit more distributors, and so on. Distributors' commission and bonuses are based on the volume of sales and personal purchases made by the people in their downline (the distributors they recruit directly, and the distributors those people recruit).

The terms direct selling, multi-level marketing, or network marketing are used interchangeably in this sector meaning self-employed distributors buy products in the hope to resell them and recruit new members who do the same.

As network and multi-level marketing have attracted fundamental critique, some companies have started to call their system 'franchising', for example, JuicePlus+ or Forever Living Products.

This term is, however, misleading as 'franchising' is a specific business model with a specific legal meaning where franchise partners have to invest substantial capital to open up their local store, for example, a Subway, McDonald's, or Burger King restaurant.

In addition, some companies like to talk about 'social selling', as distributors most often start recruiting and selling to friends and family. This is, however, nothing more than another term for multi-level marketing, i.e. MLM.

For ease, henceforth we will use the term 'MLM' to describe social selling, multi-level marketing, and network marketing.

The six biggest problems of MLM

MLM companies present themselves as a great business opportunity. And when distributors meet, whether online or offline, they are shown other distributors who have become happier, richer, healthier, and financially more independent.

Promises like 'Earn a full-time income on part-time hours' are common and working as a contractor (distributor, consultant, ambassador, etc.) is presented as financially attractive, easy to do, and fun. But, there are millions of people who lost money on their 'business'.

A whole range of worldwide studies has proven this (see resources section 5). This chapter discusses the six biggest problems of the industry.

1. Dubious and partially illegal practices due to insufficient anti-pyramid rules and legislation and a lack of enforcement

2. Delusive, far-fetched income promises and a lack of complete, truthful, and easily comprehensible financial information showing how few people earn a meaningful income

3. The fairy-tale that 'everyone can make it' if they invest time and strictly practices positive thinking

4. Risk of losing friends and family members by misusing private relationships

5. Cult-like cultures that make members resistant to questions and facts; a strong community feeling that encourages hope and dreams above the rational thinking needed for any business

6. Particularly problematic: nutritional supplements and financial products that can harm physical or financial health

We'll now elaborate on each of the six problems.

Problem No. 1: Dubious and partially illegal practices due to insufficient anti-pyramid rules and enforcement

What is illegal? And why are current EU rules and regulations insufficient?

The European Directive 2005/29/EC of the European Parliament and the Council of 11 May 2005 on unfair business-to-consumer commercial practices, defines what an illegal pyramid scheme is:

"Establishing, operating or promoting a pyramid promotional scheme where a consumer gives consideration for the opportunity to receive compensation that is derived primarily from the introduction of other consumers into the scheme rather than from the sale or consumption of products."[1]

As most distributors do precisely this: asking others to join so that they can recruit new people on which they can earn a commission, most MLM companies seem to be precisely this: an illegal pyramid scheme.

Unfortunately, the situation is more complex. The Directive has two main flaws.

1) It protects 'consumers'

First, it explicitly protects '**consumers**'. Unfortunately, consumers who become distributors, gain a new status: they turn, by signing a distributor agreement, into formally independent contractors – whether called, consultants, distributors, or sellers – their new status is one of business people.

And business people do not fall under the Directive and are thus not protected. They only fall under the Directive, if a prosecutor proves that distributors are not 'real' business people but simply consumers – such as an 80-year-old granny, recruited by her grandson to join his downline.

But all this work of proving that this happens structurally, needs to be done by prosecutors. They have the burden of proving a company wrong which is time consuming and expensive. The company does not need to prove that its distributors are actual business people.

2) It is too vague

Second, the Directive is too vague. **Primarily** recruiting is illegal. It is important that products are sold to consumers who need, want, and use the products. Only by selling products to consumers, do distributors create a sustainable business.

If the focus is on recruiting, people higher in the hierarchy only earn from those below buying products – creating an illegal pyramid scheme. So far, so good. But what does 'primarily introducing others into the scheme ' mean?

Is a company legal when 51% of turnover is created by end customers who buy and use the products? Or is it 70 or 80%? What about products that are bought by distributors for their consumption – or for storing them in the (false) hope to resell them later? All this remains unclear.

Making it even more complicated, most MLM compensation plans require distributors to buy a certain amount of products themselves or their downline (so-called inventory purchases) in order to qualify to earn commissions. This creates an incentive for distributors to buy products they may not be able to sell profitably or use themselves.

This deficient and vague legislation has at least two highly problematic consequences.

1) Pyramid schemes that brand themselves as MLM by offering a consumer product, simply fall outside the Directive

They are not monitored or controlled well enough. As long as they seem to offer a tangible 'product', for example cosmetics, nutritional supplements, home decoration, clothing, cryptocurrency or a service, such as training, the existing rules and regulations are inadequate to tell the good from the bad.

2) Shady practices, such as a strong focus on recruiting, excessive income claims, and doubtful or illegal product claims, all go on mostly unnoticed.

They might be noticed by media or watchdog organizations but they are not controlled, monitored, or policed regularly by any official institution. The inadequate legislation provides a fertile ground for harmful and doubtful practices to grow.

Why do the many problematic business practices persist without regulators doing more? Here are some reasons:

1) Actual legislation is insufficient as explained above

The gap in regulation implies that distributors are self-employed business people and therefore are not covered by the EU regulation. In addition, the EU regulation is too vague. The particular way of working, i.e. with self-employed business people who are, at the same time, dependent on headquarters, is simply not covered adequately by the law.

2) Enforcement of existing rules is time-consuming, expensive, and difficult in private settings

If regulators had the time to take a closer look, they might find many legally problematic practices. As there are hundreds of MLM companies who do not need to be transparent about how they work, what they do, and how much distributors earn or lose, enforcement is very costly. In addition, selling and recruiting mainly take place in a private context and are thus difficult to investigate. As a consequence, only very few companies are ever scrutinized.

3) The rules of conduct headquarters establish are mostly completely legal and ethical

In a legitimate MLM, entry fees are low, distributors are only compensated for sales to customers outside the MLM, no one is required, incentivized, or pressured to buy excessive inventory, and no aggressive marketing practices are allowed to be used. Most MLMs claim that they follow these practices. However, the actual practices are frequently different and far from ethical. Here are some reasons why.

Entrance fees

The official starter kit might cost below 100 Euro and no one is obliged to spend more. In recruiting talks and (online) seminars, potential distributors are told that to 'really start', to 'fly like an eagle', and 'to push your business and future', far more products should be bought.

Potential distributors are told that only those who invest, will be successful. And those who buy more, will get a higher discount from headquarters and thus also earn more in the future.

Deception about the requirement to purchase

Most headquarters emphasize that there is no pressure to regularly buy products. It is enough to own a starter kit to demonstrate the products to others.

This sounds great. However, rules are often more tricky: many commission systems have rules stating that only those who regularly buy will earn commissions on their downlines. Or that you are only able to receive an attractive discount if you buy each month.

Buying certain products each month, for example, nutritional supplements for €200, is beyond what distributors need. As it is often difficult to sell the products to non-participants, over months distributors invest more money than they ever earn back. In the worst case, people borrow money to buy products and build up debts.

Focus on recruiting instead of selling

It is rare that headquarters officially focus on recruiting. Most companies emphasize that it is possible for distributors to only sell the products and no one is required to recruit.

However, in (online) meetings, upline distributors repeat over and over again that recruiting is the only way to success. Only by recruiting is it possible to build up a 'passive income', 'make money while you sleep' and 'fly like an eagle' instead of swimming with the ducks. As products are often more difficult to sell than promised, distributors turn to recruiting. Within LuLaRoe for example, top leaders admit that most of their income was in the form of bonus cheques linked to recruitment.

Lack of responsibility over training

Most of the educational training, meetings, talks, etc. are organized by the self-employed upline members. Headquarters have little direct involvement and also might not want to be involved as being uninvolved allows them to deflect responsibility.

When upline members make excessive income or product claims, headquarters can look the other way. If a (media) scandal happens, headquarters point out that their rules are sound and legal and that what happened is against their rules. They pass the blame to individual distributors instead of taking the responsibility of changing how they and their distributors work.

To sum up: As laws and regulations are insufficient, rules on paper look sensible, and regulators have too little time to invest in the real practices of all MLM, a lot of unethical behavior simply continues.

When a scandal happens, headquarters are not effectively held accountable and get away with blaming 'black sheep' without ever changing their very own problematic business model.

Only a competent external authority can help to avoid these problems: with officials being responsible for taking care of this industry, having the knowledge, the oversight, and the time to enforce rules, consumers and distributors can be protected far better.

Problem No. 2: There are no riches for the vast majority, only minimal income and debt

People involved in MLM love to brag about and promote spectacular income opportunities, financial independence, 'passive income' (earn without working anymore), and a luxury lifestyle. Videos of the allegedly rich and famous suggest that everyone can have all that: a big villa, a swimming pool, expensive cars, luxury travel, etc.

What all these distributors do not say is that only a handful of people in a company can achieve this. And to achieve this, they need (ten)thousands in the lower echelons of the pyramid structure who finance the lucky few above.

Research shows, for example, that in the case of Amway Germany, only one in 10,000 of participants can get rich. The reason is twofold: firstly, high incomes are only achieved with a 'downline' of thousands of people.

Secondly, as most distributors stop within the first six months, a continuous flow of new recruits is needed to sustain the few high-level distributors. Thus, as in other big companies, it is only the very few people at the top who earn a significant amount of money (and rarely what they claim or you may think).

Other MLMs are no different as only a tiny percentage earns an income that could afford for a villa, a fancy sports car, or to be able to go on holidays wherever they want.

A middle income is also very difficult to achieve. If you need around 500 distributors in your downline to reach a living wage, and half of these distributors stop within six months, a decent wage can only be reached by recruiting 1.500-2.000 new people each year. Moreover, each of those new recruits has been promised the same opportunity, which means that they must also recruit 1.500-2.000 new participants each year.

Thus, contrary to whatever you are told at (online) meetings or videos and posts on social media accounts, it is very difficult to build up a downline with that many people. In addition, it is simply impossible to never work again and live only on 'passive income', as the distributors below you need constant recruitment, motivation, seminars, etc.

Last but not least, while €4,000/month might sound comfortable, a pay cheque like this is before costs: expenses for purchasing products, seminars, eventually, a car and holidays to show off, taxes, and social security. Very few people make a living from MLM.

Payment is not activity-based but only incentivizes a small set of business activities

MLM companies do not offer fair pay. They do not pay for most business activities that you need to carry out, such as learning about the products, attending seminars, talking to your friends and family members, seeking to recruit people, and posting on social media.

You only earn either by reselling products or by recruiting someone who buys products. All other activities go unpaid while taking a lot of time. As most products are hard to sell (often MLM products are overpriced compared to similar products in the market to feed that 'passive income' upline), many distributors turn to recruiting others and telling them to buy products – a problematic approach as a focus on recruiting is one characteristic of illegal pyramid schemes.

Incomes are pyramid-shaped

MLM companies propagate their business with messaging that tells distributors 'there is no upper limit' to income and that 'you get out what you put in'. Values such as fairness and equal opportunity are expressed.

In reality, income is even less equally distributed than in 'normal' companies as most at the bottom invest far more than they earn. A few people have indeed got rich but this does not imply that everyone can follow them. In fact, the opposite is the case: a few got rich because so many bought products and recruited others who did the same (see Section 4 for cases).

The few rags to riches stories do not mean these companies are truly offering equal opportunities. The big earners are the exception to the rule. They were often early entrants in a geographic region, had high social capital, i.e. knew a lot of people, were already high status, charismatic (reality TV stars promoting MLM in the UK for example), and had a large amount of luck.

By coincidence of these factors, they made it. Not because the companies foster equality. Do not forget, in seminars, you will only see the few exemplary distributors who made it; you will not see the (hundreds of)thousands who invested more money than they ever got back, nor those who built up debts by doing so.

Testimonials are deceptive and inaccurate

The message on social media, online, or in live seminars, is always the same: see and listen to those 'who made it' and because they did it, you can do it, too.

But titles and ranks as 'director', 'royal crown diamond' [Young living], '4-star executive' [Youngevity]' 'Ruby' [ItWorks!], 'Supervisor' [Herbalife], 'Mentor' [Lularoe], 'Senior Executive Director' [31gifts], 'Star Diamond' [Mary Kay], or 'Managing Market Builder' [Monat] says very little about the actual income of allegedly successful people (see section 4 for example case/s).

The reason is simple: a new title is granted based on a qualification period, for example six months. To achieve a promotion you need to achieve a certain 'sales' target (or earn a certain number of 'points'). But 'sales' means that the company sells its products to you; often it does not imply that you need to sell the products to others. To achieve a target, you can also simply buy the products yourself. And not just you; you also depend on your downline collectively achieving this target. In order to meet this requirement, you need to do everything you can to get your downline to personally buy (and eventually sell) products. If you still don't get enough, you will again have to buy products yourself to meet the requirements - telling yourself it will be worth it with your bonus and higher commission, and you can sell the products later.

But this way of doing business is unsustainable. So once you have achieved the title, you rarely attain that level of personal and team sales, and your commission drops accordingly. You still keep your impressive title and appear successful from the outside, but you are left with unsold products stored in your home and little income.

All this is not visible from the outside. What is visible and stays visible is the higher rank you have achieved. A title, even if the qualification is reached only once in a distributor's lifetime, will remain the same for years to come. With this trick, most MLMs pretend to have far more financially successful distributors than they actually have. While the flashy title remains forever, the actual income is invisible and often lags far behind what the title suggests.

Testimonials distract people from asking essential questions

In (online) meetings, extravaganzas, and seminars, men and women of all ages, different backgrounds, education, and nationalities show up. They claim to have become healthier, more beautiful, richer, more independent, happier, and now, finally, can live the life they ever longed for.

Such 'testimonials' are a typical marketing method to boost sales and recruiting. The few seemingly successful serve as proof that the company and the whole business model of recruiting others who buy, sell, and recruit others, is excellent. The problem is that by such good-sounding 'testimonials', potential recruits ask far less about the relevant data.

People who intend to start a business and/or consider a job opportunity benefit considerably from being well-informed about the time and money it is going to cost them. So, instead of listening to a few testimonials ('anecdata'), it would be more relevant to hear how much or little distributors earn, how many do not earn anything despite time invested, how many built up debts, and how much effort it costs to find end consumers.

These questions are not answered by MLM companies. Instead, testimonials seem to serve as a way to distract from these essential questions (see cases section 3).

Recruits work far below minimum wage and have no employment rights

Income in MLM companies is often very low and might even lead to debts. Why? Distributors work on their own. They are self-employed, and like many workers in the 'gig economy' left without any protection from unions, works councils, their lobby group, or any other authority protecting them in their rights as workers.

As a consequence, any official controls of income or minimum employment requirements do not apply and problems persist.

There is no transparency

The MLM companies, upline distributors, and recruiters promise a lot – great riches, financial autonomy, and a lavish lifestyle. Fact-checking these promises is a monumental and often impossible task as most companies do not publish relevant figures. In addition, there is currently no legal requirement that they do so, in contrast with other business opportunities such as franchising.

Income disclosures, if provided at all, are often incomplete and difficult to decode. And some published figures sound great at first glance but are miserable when put into perspective: A company that pays out 30 million Euro/year commissions might sound like a great company to work for. However, if this company has 100.000 distributors, the 30 million commissions are only 300 Euro per distributor and thus only 25 Euro/month – before taxes and business costs, and assuming an even distribution rather than the top-heavy wealth transfer we know to be occurring.

Companies hide this by talking about average sales - skewed by the wealthy at the top of the MLM, rather than mean sales - how much or rather little most distributors are making. In addition, companies never show the costs of the business, and as research from around the world demonstrates, most people in MLM actually lose money rather than earn it.

Problem no. 3: 'Everyone can make it' – if they work hard enough and think positive

(Potential) recruits are talked into believing that they can make it. They only need to work hard and think positively. Then they can realize their dreams – being rich, having time for their family, and earning a passive income that they can pass on to their children.

Anyone who does not succeed has only themselves to blame. They only had to work harder and truly believe in the business opportunity – a fake promise, misleading people to try harder and harder to achieve something that is unachievable. Millions of former distributors around the globe illustrate that such promises are not true: most members earn little to nothing. Only a few at the top earn a living wage or get (very) rich.

But why is it impossible that everyone will become successful if they just work hard enough and think positively? There are two key reasons.

1) The companies are pyramid-shaped

As explained above, MLMs are set up like pyramids: very few earn very much, a few something, and most nothing. Most of those at the bottom invest more than they ever earn back. A 'passive income' is only possible when you have many distributors in your downline.

It doesn't matter how things are presented by those who seek to recruit others, as in any other big company, the one at the top earns more than the others below. The CEO earns more than those below. Or with the Olympic Games: one gets Gold, the others get less or nothing.

The difference is that MLMs pretend to be different. While no one argues that whoever trains hard can win Olympic Gold for running, in MLMs precisely this happens: success is presented as something that everyone can achieve.

2) The people at the top have hidden advantages

Whatever recruiters may say, those who are at the top of the pyramid mostly entered early on. Only a few entered without education, a large social network, and personal characteristics of a salesperson – such as seemingly trustworthy, charismatic, extroverted, and being an easy storyteller.

Also having a background in a related field can help via the social status and assumed knowledge. For example, someone who was working in the medical or alternative health field would have access to clients and already be in a position of trusted responsibility. So they would be more successful at selling health supplements. Similarly, a hair stylist or makeup artist would find it easier to sell beauty products.

The testimonials that are told over and over again suggest that success is possible for everyone. But those who are successful are those who got in early, can sell well, have great luck and charisma, have already a high social status, can credibly represent a product, already have money to invest and appear successful, or are simply good at bluffing.

Someone who has no money has a much harder time conveying that the job is a once-in-a-lifetime opportunity for wealth than someone who already lives in a nice house or drives a fancy car. True rags-to-riches stories are very, very rare. While these individual cases are often told over and over again, they are the absolute exception.

Who benefits?

Who benefits from all this? The claim that all you have to do is try hard enough and think positively only serves the upline and the companies: it glosses over the fact that not everyone can be at the top.

The blame for failure is put on individuals so that the company and its distributors can wash their hands of the disillusioned. By constantly thinking positively instead of realistically, unsuccessful members keep their hopes up longer, keep buying products that they don't need, and keep trying to recruit people to do the same.

So-called 'toxic positivity' casts all those concerned by the low success rates of the business model as negative influences who are actively preventing the distributor's success. All this creates turnover for the company and recruiters.

Those who stop blame themselves instead of reporting the company (which is often not possible as most of the enterprises operate within the letter of the law - see above). Thus blaming individuals for their 'own failures' saves recruiters and companies the hassle of dealing with the numerous problems they cause.

Problem no. 4: The abuse of personal relationships

In most companies, newcomers are explicitly asked to promote the products and the job to their families, friends, and acquaintances. This is the standard way of working as newcomers often have no experience in selling or recruiting. And selling and recruiting seem easier to do with people you already know, as they trust you and like you.

In addition, those who trust you are more likely to buy something, simply because they want to help you or feel obligated to do so. But using your social relations like this comes along with a price distributors have to pay.

Socially questionable/unwanted

Many people feel it is socially problematic that distributors earn money from their friends and family members. It is not well perceived as distributors often use all kinds of private situations for commercial purposes, for example, a birthday party, a family gathering, or a parents' evening at school.

The risk is that long-standing relationships suffer as not everyone wants their friends to be used and misused like that.

Buying out of social obligation

If you start a business, others – your friends, family members, or old schoolmates – might want to help you by buying something or attending a business presentation. They do this out of solidarity and friendship.

But if others buy something from you or start a business because they like and trust you, and the product or income promises are worse than expected, your relationship can suffer as well as your social position.

This is particularly problematic when it comes to financial products and food supplements. These products might have a major and long-term impact on your financial and physical health. However, lay people who work for MLM companies, people who are not educated in nutrition science or financial planning for example, are provided with talking points that make them appear to be experts.

If you have bought something just for the sake of someone else and then do not get healthy or suffer financial damage later, this challenges your friendship and social status.

Abuse of trust

People are more likely to trust family members, friends, and acquaintances than strangers. But the more complex products are and the higher the income promises, the more problematic it is to recruit those you know.

MLM companies are good at convincing their people that they are an excellent company. But most are not. Enthusiastic distributors pass on the message of excellence to their beloved ones, only finding out later that they often unintentionally misled others.

Problem no. 5: Cult-like communities

What are cults?

The term cult is used to describe closed, extreme religious communities. Strictly speaking, MLM companies are not religious groups. But they often do have charismatic leaders, a very strong sense of community, exclude outsiders, discourage any question or criticism and propagate a very particular worldview.

Most MLMs seek to build a strong community through a whole range of events, online and offline, by propagating a particular mindset, such as positive thinking, and by emphasizing how great all those who participate are – while non-participants are portrayed in a negative light.

A strong sense of community helps the companies and convinced members to gloss over the gaps in the system and reject criticism. The strong sense of community prevents people from noticing, for example, that they don't know anything about nutritional supplements or that the use of social relationships for business purposes is problematic.

The sense of community ensures that members no longer engage critical thinking skills about financial and product claims and whether their own actions or those of others are ethically correct at all.

Community builds motivation - which is abused

Celebrating a sense of unity is motivating; it strengthens against self-doubts and critical questions – two things that especially newcomers experience. The feeling of unity supports the feeling of 'being right', at the right place, and doing the right thing.

Seeing other people (online) who 'speak the same language', reinforces the feeling of having made the right choices and that recruiting others into the system is a morally good thing to do. In this way, the sense of community satisfies the social and emotional needs all human beings have and that some people lack in other relationships.

By celebrating unity, MLM can help against loneliness and social isolation. The problem is that this sense of unity is used and misused to make money: members buy more products than they want, leave existing friends, work harder without earning much, and when they are disappointed with the results, they blame themselves instead of critically examining the MLM system.

Recruits are promised fake fulfillment

MLM companies exploit and magnify people's dissatisfaction: In meetings and training sessions, upline distributors stress how unfair, unhealthy, and unsatisfying today's society is and how boring, monotonous, and limiting work in a non-MLM is.

Being a distributor in MLM is presented as the cure-all to unhealthy work environments, lack of community in our Western society, and a means to provide equal opportunities for all. Self-development, health, money, community, financial freedom and justice are promised - simply 'everything' that most people want.

This sounds too good to be true. It is also simply not true. Most distributors invest more money than they earn. Distributors who stop 'believing' in the company, stop recruiting others, and stop buying products, are dropped by others like a hot potato. Only those who participate in the dream, i.e. continue to believe, buy, and recruit, are part of the community.

Critical questions are unwelcome

Presenting a company as a cure-all helps to keep members away from any critical questions. Critics are regularly denigrated as negative thinkers, losers, quitters, and even 'negferrets'! etc.

Distributors are told not to deviate/depart from their strong belief in the company and themselves and any critical comment is degraded as born out of envy, ignorance, or fear of the new.

As in religious cults, anyone who stops believing in the company is immediately excluded from the community. Friendships that were presented as being for life are abruptly ended by those who remain. And dropouts realize that any social warmth and appreciation ends when upline members stop earning on their efforts.

Loss of social relationships

Former members can thus lose their friends twice: the first time when they join and stop seeing friends and family members who do not share 'the dream'. Then again, when they quit their distributorship and are dropped by others. In the end, they might have no friends left to turn to.

Retention despite failure

Most members earn little to nothing, especially per hour spent on (online) seminars, talks, presentations, etc. This is painfully apparent to most within the first year. Due to the feeling of togetherness, members then nevertheless stay with the company and continue to try their luck - without this ever coming.

The strong community thus ensures that even unsuccessful members continue to buy products that they neither need nor sell to others.

Problem no. 6: The problematic recommendation and selling of financial products and dietary supplements

Direct sales, network, and multi-level marketing, and 'social selling' companies sell numerous products and services. For two product groups, the way products are advertised is particularly problematic: dietary supplements/health products and financial products. Why?

Trust is (mis)used to make money

Most consumers have difficulties assessing the quality, efficacy, and value of health and financial products. They simply lack the knowledge. That is why we all prefer to buy such products from people we know and trust.

But distributors of MLM companies earn money from selling products and not from giving good advice. Even if the distributors are your friends, acquaintances, or family members who might say that they only want the best for you, the company only pays them for selling products not for giving good advice.

Lack of knowledge is dangerous for consumers

It is not only consumers who have little knowledge of health or complex financial products. Most MLM distributors have little or no knowledge concerning these products either. MLM companies do not require any professional training or education for their distributors. Rather, they say 'anyone can do it'.

Distributors do receive company training after they started. But such training is mainly to motivate distributors and explain how to contact people. They might include a little bit of product knowledge but they can never replace an independent education on health or financial issues.

Distributors are simply told to repeat what their upline tells them in webinars, meetings, recruitment interviews, and training. Most of them have no background to know what a customer needs. This is a big problem for customers because who wants to get sick because of wrong advice, spend thousands of euros on food supplements you do not need, or invest your money in the wrong way?

Distributors do not earn money for their advice but only when they sell or recruit others who buy the products. The quality of advice is not guaranteed at any MLM company that sells dietary supplements or wealth-related products. The companies are not obliged to provide such a guarantee and they simply fail to do so.

Misuse of social status and trust

Some salespeople might have a background in health or finance. But this leads to unsolvable problems, too.

Health products

When doctors, alternative practitioners, physiotherapists, or their partners promote products, they deliberately abuse their social status and the trust of others.

This is against their professional code of conduct because they do not offer independent advice either: they do not earn from the advice, but only from the sale of the product. The 'advice' therefore leads to the sale of the products or the recruitment of new members who buy products and recruit others to do the same.

Financial products

Also in the case of financial products, trust is what counts most, as only a few customers can assess the quality of a life insurance policy, long or short-term investments, old-age provision, or the value of complex financial products such as cryptocurrency or options.

MLM companies make use of the wish of customers to trust those who offer them such products. Their distributors first and foremost sell in the so-called "warm market", i.e. to friends, family, and acquaintances.

But the trust is unfounded. By the time the life insurance or old-age insurance matures, most distributors have long stopped working for the respective company. If problems arise and products do not turn out as expected, they cannot help their friends and family members.

The motive to buy from someone you know, the personal trust you have, is of no use in this field. Selling such products to people you know or buying from them, always benefits the company, while your relationships can suffer.

To summarize, marketing health and financial products through MLM is an attractive sales channel for companies, as distributors sell to and recruit their friends and family. For customers and distributors, these MLMs are particularly risky. Customers are not served well, as distributors do not need appropriate knowledge that is independent of what the company creates.

Distributors are not educated to give advice, but to sell and recruit. If distributors do have an education that allows them to actually give good advice, they are still not paid for giving good advice. Their knowledge allows them to misuse their social status to sell and recruit more.

Good solutions for these problems are a) that distributors need independently organized education and training for selling such products and b) that distributors earn a fee for independent advice, not for sales. Both solutions are very unlikely to happen and distributors and their friends and family members are the ones to suffer.

SECTION 3

Frequently asked questions about MLM

There are many common questions we get asked or see being asked about MLM. In this section we answer some of the most frequent.

Why do so many people believe MLMs' promises?

The problems in direct sales, network, and multi-level marketing are as old as the industry, i.e. more than eight decades. How do the companies manage to still make people trust them? How do companies manage to recruit new members and win customers over and over again?

Here are some of the ways they achieve this.

Testimonials of seemingly successful members

It is typical for MLM that (allegedly) successful members tell their story in a very personal and mesmerizing way. Speakers and audience members have tears in their eyes when listening to those who publicly 'confess' how 'their' company changed their life for the better.

This sounds very convincing for many, even if the stories are made up, not verified, and, first and foremost, the stories pale in the light of the countless non-successful distributors who do not get the opportunity to tell how they struggled without ever succeeding to earn a reasonable amount of money.

Appearance instead of being/reality

Members who once created a high group turnover, eventually simply by buying themselves into the respective rank, do not lose their status. Once a rank is 'achieved', such as manager, team leader, gold, eagle, director, it is never taken back. Even those who earn very little for years might be presented with a high rank that they only reached once a long time ago. With this trick, the number of supposedly successful members is constantly growing without them earning well.

Photos, videos, pictures

"A picture is worth a thousand words". Pictures of beautiful houses, dream villas, dream holidays, etc. are eagerly shared and are supposed to 'prove' how rich and beautiful life can be through the respective company. Whether the corresponding trips and cars were paid for with money earned from MLM remains unclear.

High-level distributors might also build up debt as they need to pretend to have a lifestyle they cannot afford. They lease an expensive car, borrow money to go on holidays, or simply use images from an internet database that they manipulate on their PC. The motto "fake it till you make it", leads seemingly successful members to build up debt to deceive their downline into believing the excessive income claims.

Community spirit

As explained above, at (online) events and in videos, the great community spirit is praised, positive vibes are spread and everyone is treated cordially. This only holds as long as s/he buys the products and speaks positively about the company. Anyone who dares to be critical or asks a challenging question is mocked and excluded.

Why and how do people build up debt?

While being a distributor is presented as a way to make money, independent research clearly shows that most invest more than they earn. How is this possible?

Officially, entry fees are low in most companies - and some claim they have no start-up fee. If there is a fee, it is usually less than 200 € for a starter kit. And officially, no one is obliged to buy products upfront.

However, as soon as people are interested in earning money, recruiters often try to convince them to buy a larger starter package at the beginning, or to start buying products. But why would anyone do that? Here are some of the reasons why they are convinced to spend money:

- Recruiters argue that with a larger package, you will get a higher discount, **and earn more later.**
- By having a larger package at home, you can showcase more products, **and earn more later.**
- By buying a larger package with more products, you can learn more about the products and the business by using them, and who knows more, **will earn more later.**

- By having more at home, you can better show others how convinced you are. They will then buy more from you **and you will earn more later.**

- By buying more, you can enter a higher level at the company directly, you are already successful and successful people will earn more later.

- Almost every MLM company requires its members to buy products to earn commissions, so-called inventory purchase qualifications. Distributors who do not buy enough in a given month, lose their (right to) receive a commission.

So while on paper no one is obliged to buy a large starter package, it takes place in many companies. New members are lured into spending a few hundred or even several thousand euros. Those who do not have this money have to borrow it, building up debt. And as it is often difficult to sell products, the debt remains.

And debts can grow significantly in some companies. Commissions are only paid to those whose own downline achieves a certain (group) turnover. And if your team does not achieve this, you might simply buy the needed products yourself – in the hope to resell them later (and finally earn some money …). If you already have debt, you create new debt and a pile of products that are difficult to sell.

To earn a 'passive income' and 'break financially free', you need a large and highly motivated downline. To motivate them, you will not tell them that you have debt and boxes of products in your house that no one buys.

Instead, you might show others how great the company is, by living beyond your means. So many members fake a luxurious lifestyle to motivate themselves and their downline. Following the motto "fake it till you make it", they increase their debts to buy a bigger car, expensive clothes, holidays in trendy places, etc.

When the 'dream' ends, they are left sitting on debt and stored products.

How can you tell if someone has joined or is trying to recruit you to an MLM?

If a friend, relative, or acquaintance starts enthusing about a new product or service they are using, or invites you to hear about 'an opportunity', beware! These are classic signs they have joined an MLM and either want to sell to you, or recruit you.

If they are selling products they may use emotional blackmail: "If you were my friend/cared about me, you would support me." They may ask for help to hit a sales target or promotion. Or they may encourage you to buy from them to support a 'small business'. They may even make wild claims about products, for example, they feel more energised, have lost weight, reduced wrinkles. Or they may claim their products have superior qualities to high street alternatives.

Don't allow yourself to feel guilted into buying, or fall for unsubstantiated claims. MLM products are usually overpriced and lack any real point of difference. You can usually find higher quality products from a reputable store for less.

Buying out of guilt simply prolongs the illusion that MLM works, and can lead to the person you care about spending longer with (and losing more money to) the MLM. You should also not feel obliged to spend money to support someone if you do not wish. You can simply say, "I care about you and wish you well, but I do not need or want this product". If they persist, consider how considerate they are of YOU in pushing the sale (which they believe is for their financial benefit, at your cost).

If a friend or relative tries to recruit you, you can refuse to listen to their sales pitch. Again, let them know you wish them well but it is not for you. If they do start to pitch to you, ask to see income disclosure statements for their company. If they cannot provide one, say you need to see one before listening further.

Few companies create income disclosure statements because they show how many people (usually over 80%) earn nothing or virtually nothing a year. After expenses are accounted for, these people will have made a loss.

Beware, they will attempt to tell you how easy the business is, how much money you can make flexibly, and how much fun they are having. This is simply a fantasy.

Never feel obliged to indulge a sales pitch from anyone, whoever they may be. You can simply say that you do not support MLM and ask them to respect your view.

How can you deal with family members, friends, and acquaintances who start full of enthusiasm?

When friends and family members are enthusiastic about something, you're probably willing to listen, and when you're asked for help, you probably want to do so.

Unfortunately, MLMs' take advantage of this. New distributors are told to contact their friends, family members, and old acquaintances and make them curious and willing to help. Distributors are taught not to tell that an MLM is behind their message, making it hard for others to know what is going on until they have listened to a long, convincing story about 'a great opportunity' or 'a life changing business'.

Saying 'no' to the 'opportunity' and trying to get some distance from the over-enthusiasm of newly recruited members is difficult because most of the time simply nothing helps. Companies work in such a way that those who are involved don't want to hear any criticism. MLM companies often tell their new recruits to 'avoid the dream stealers'.

One of the first things new distributors learn is that critics are just negative thinkers (or have been burned before and are projecting their experience) and those who ask critical questions simply do not get how great the whole thing is. They only think negatively as they have psychological defects, such as being afraid of new things or being envious.

Such assertions make it impossible to have a fact-based conversation, for example on the likelihood to earn money, the number of people who do earn a lot, the costs of the business, the quality of the products, or the quality of the 'advice' given.

If you want to maintain the friendship, it's best to keep a friendly distance; no direct criticism, but sentences like: I appreciate that you try out something new. It does not fit into my life now but if you're still happy next year, I'll be happy to listen to it again, etc.

The good news is that most members stop within six months anyway. The initial enthusiasm is usually just a storm in a teacup. Since most members earn little or no money and are stuck with far more products than they want to consume or can sell, they slowly start to question what they were told.

Unfortunately, when dreams do not come out as imagined and visualized, members have already lost money and friends. In addition, they often blame themselves. This is on purpose and serves the companies well. By telling distributors that failure is up to them, former distributors do less to question the companies themselves.

When friends and family members start to doubt, it is a good moment to provide them with actual industry numbers: low earnings, low likelihood of success, the many manipulation strategies, etc. By this, you can help them understand that how these companies work is problematic and their 'failure' is not surprising at all.

Why do MLMs use social media?

There are a number of ways social media helps MLMs to recruit and sell.

Focus on emotions, wishes, and dreams

Social media strengthens MLMs. It helps these companies because they primarily play on the emotions and desires of people, such as the wish to get rich, to be autonomous, healthy, beautiful, and to live a luxurious lifestyle.

These promises are much easier to make with images and videos than with words; social media makes it possible to spread such dreams and promises – irrespective of how deceptive they are.

Working from home

Social media makes it very easy for distributors to reach out to many others when they try to sell products, establish contacts, recruit new members and socialize with existing contacts from home – even during a pandemic.

In addition, those who search for employment can easily do that on social media. As a result, the companies who promote their alleged opportunities on social media via their distributors grow, for example during the pandemic. This has nothing to do with good products or a good income for the members. The industry simply benefits from social media as an easy way to grow.

Social media changes our feelings about privacy

The use of social media continues to grow. They are used in MLM to promote a better lifestyle, health, beauty, and wealth. Social media makes it very easy to invite people to an (online) presentation or raise interest for a seeming 'income opportunity'.

Sending an app is much less embarrassing than having to call someone by phone or ring the doorbell of your hairdresser, former schoolmate, or sports teacher. And promoting your business face-to-face is far harder than sending around a fancy video.

The feeling of privacy and shame is lowered by social media technology and allows distributors to promote 'their' company far more easily. The extensive use of social media also makes people tired of being approached by others with all kinds of empty promises – a risk to the industry, as the many anti-MLM websites show.

Are there thousands of 'job openings' in MLM?

Distributors sometimes promote their company by offering 'job openings' and 'vacancies' for people who need and wish to earn money. And of course, all those who want to build and grow their own group/downline, are happy about thousands, even tens of thousands of new members. Why? Because they all buy the products in the hope of becoming successful themselves.

But promises such as 'vacancies' or 'job openings' are nothing more than hot air. Working in MLM has little to do with a regular job. Such comparisons are simply deceptive.

Most distributors invest more money than they ever receive back, i.e. they lose instead of earning money, some even building up debts. They buy large quantities of products at a discount in the hope of becoming successful one day. But in the end, are left to shoulder the costs of products, which they neither need nor can ever resell, and the debts for faking success by leasing a bigger car, buying fancy clothes or renting a new flat. Costs they would have never had without the illusion to get rich one day.

Why are MLM distributors NOT entrepreneurs?

In MLM companies, all distributors are self-employed. Companies often present this as a great opportunity for them: 'be your boss', 'decide for yourself', #bossbabe, and 'gain financial and personal freedom'.

In reality, distributors are not entrepreneurs. They might develop some personal skills, such as structuring themselves or learn on time-management, but for the central aspects of what makes up entrepreneurship, they completely depend on what the companies prescribe.

Headquarters determine the products, product prices, product discounts, and also who earns what, when, how much, etc. Of course, members can decide for themselves is when, where and how much they work. They cannot, however, decide on the products, the activities, or the commissions to earn money.

At the same time, being an MLM distributor can hardly be compared to any 'normal' work either. It differs from employment as the company does not pay an hourly wage and the income for most members is minimal (see above). In addition, there is no security, it is difficult to plan ahead and even distributors who have built up a downline continually need to work hard to keep everyone happy and motivated.

While MLM companies present their distributorship as a great opportunity, being a distributor often does not pay off financially.

Why is self-employment an advantage only for the companies?

All MLM distributors are self-employed. This is often presented as a great advantage for members. It is, however, only attractive to a few on the top, a handful of people out of thousands.

The real beneficiaries are the companies themselves as it creates attractive opportunities for new brands and companies. With an MLM model, companies have limited risk and few costs when entering a market. Companies do not, for example, pay any social security contributions. They only need to pay commission when someone buys something, and they can outsource most costs for recruitment, education, and motivation to the self-employed upline members.

For companies and their headquarters, it is a very attractive and cheap way to do business. And if they are criticized for unethical or illegal practices, they all too often wash their hands and protest their innocence, arguing that it is the self-employed distributors who did not abide by their code of ethics.

What are the unique selling points of MLM in comparison to other forms of distributing and marketing products?

MLM companies differ from online trading or sales in retail shops in how they market their products. What are the central characteristics of this form of marketing and distribution?

Social selling

Compared to the ever-growing online stores, MLM offers people a change: meeting people and coming together, is a social need and MLM uses and misuses this need for the purpose of making sales. In addition, people who know and trust each other are more likely to buy from each other.

This works in particular for products about which most customers have little knowledge, such as nutritional supplements or financial products. For companies, using the trust between friends, family, and acquaintances to sell their products, is attractive.

Parties

An 'advantage' of selling during product parties is that customers cannot compare the products and prices with products of other companies. This results in more purchasing decisions. In addition, at product parties social pressure can lead to purchasing: there is a small 'hostess gift', the hostess serves food and drink, etc.

Friends and family members can also feel obliged to buy to help the other person with 'their' business. All this leads to turnover for the company as party participants buy products they would not necessarily have bought in a retail shop.

Social media

Through social media and the pandemic, direct sales, 'social selling', network and multi-level marketing are booming. While sales parties in the living room are only possible to a limited extent, social media makes it very easy to offer products and a business idea to a large group of people.

Inviting people via WhatsApp, Insta or other social media is faster and less embarrassing than inviting someone in person. It's also quicker and pictures and videos are attractive advertising options that are easy to send.

What does MLM contribute to society?

MLM companies and their convinced members often claim that by them people and society become better: individuals earn more money, become healthier, more beautiful, and happier. And society gets more honest, fairer, and freer.

Given the often completely unrealistic promises of income and most distributors investing more than they ever get back, this self-praise is simply wrong. Here are four common claims and why they are wrong.

1) Financial freedom claims

Most distributors invest more than they earn. Financial freedom is only available to a tiny share at the top and in many companies, it is only possible on the back of thousands of others, who receive no decent compensation for their work.

2) Health claims

Health claims are exaggerated as nutritional supplements have most often never been tested. Companies selling such products frequently hire 'experts' who endorse their products. In addition, they commission 'studies' to evaluate the efficacy. Thus most of the time, these 'studies' are not independent but paid for by the company – if you doubt, simply seek to find them on google scholar.

3) Happiness claims

In meetings and rallies, people boost one another. While such a meeting can feel great at the moment, it does not change the unequal income structure, i.e. only a few earn a decent income, the difficulties to sell, or that using social relationships for economic purposes is socially tainted.

4) Fairness claims

MLM distributes income very unequally. While all adults are allowed to participate regardless of gender, age, education, and nationality, only a few succeed. In addition, some companies seem to focus on vulnerable groups, i.e. people who have difficulties in the labor market.

Earning a little side income by selling a few products or recruiting a few new members, is more realistic. However, the time, financial, and social investments you need to make, still might be out of range.

Being a distributor to earn a side income is therefore only attractive if you have very few alternatives on the labor market and/or you can tax-deduce your expenses (for example from your spouse's income or another job).

How can you find a 'better' MLM?

Distributors of MLM companies are often very friendly when contacting others – as they seek to earn money by recruiting new members and selling products.

Based on the above facts, it is questionable whether there is an MLM company that allows more than a few people to earn a decent income (let alone get rich). So be aware that whether a 'business opportunity' is attractive or not, does not depend on how nice people treat you in the first place.

Instead, it is important to be very critical. If you want to give such a company a try, get answers to the following questions.

Do you mainly sell products or are you first and foremost asked to recruit new people?

Companies that focus on selling to end customers tend to do better. Why? Only the sale of products to end customers generates turnover and thus potential earnings. If in a company it is mainly members who buy the products, the only way to earn money is by recruiting others.

This makes most people spend more money than they earn, i.e. not what you want if you look for an income opportunity. In addition, it can be illegal and you might scare off friends and family members.

If the focus is on selling to non-members, ask yourself whether the product is competitively priced. Is the product worth its money? Do you like the products? Would you also pay their price if you had no hope of earning money with them? Or would you rather buy the cheaper alternative in a shop or online? If you find the products expensive yourself, others surely do too. Do you then actually want to sell them?

Does the company and/or the one recruiting you to talk about earning a 'passive income'?

If yes, do not do it. Earning from others/passive income sounds attractive at first. But for a good income, you need a large group of your own. Only one out of a few thousand distributors can manage to do that. Chances that you are the one, are very low. Investing your time, money, and friendships into this is a waste of time.

How high are the income promises? For how little effort?

Promises of a 15-hour work week that will make you rich within two to three years, do not work. If you want to make a lot of money, you should not get involved in MLM at all. If you want to earn a side income by selling products, give it a try.

If you have a sales soul and manage to recruit a few members, you will see how the business 'develops' – if at all. Do not give up your main job, education, or any other security just because someone promises you will get rich.

Ask yourself how big is the gap between what is promised and what is earned? As a rule of thumb, use this: the more utopian the promises, the more deceptive. Easy money in MLM does not exist, even if you are told otherwise. Thus, simply stay away from companies where members promise the moon.

Which products are we talking about?

Two product groups are always problematic: Food supplements and financial products. See also above. Why? Anyone can start with MLM without any knowledge. Especially in the beginning, you will sell exclusively to people from your environment (family, friends, acquaintances). These people trust you.

But what you learn at the business training courses is not education, aka independent knowledge. You will just learn marketing talk and how to convince people to spend money.

Do you want to offer something to others without having real knowledge? Only by repeating what you have been told? Remember that the seminars, webinars, videos, and meetings are all promotional events. You are only told what increases sales. You don't get independent information and therefore can't give good advice to others - no matter what you are told by your upline who wants to make money from you.

How many products do you need to buy and why?

Some companies allow distributors to showcase products with a starter kit and whatever customers choose, is ordered afterward. In this case, you do not need to stockpile products.

If you are told that it is very important to own many products to be able to sell them, to 'educate' yourself and to buy in bulk to save money, be careful: the company and your upline earn as soon as you order products. But you only earn when you sell them.

Also, automatic orders are a widespread but questionable practice: If you have to buy products every month to be allowed to receive a commission on your downline, you may soon have many more products in your house than you can use or sell yourself in the foreseeable future.

Why do I want to join?

This is the most important question. If you want to make a lot of money, you will be disappointed. If you want to make a small extra income from your friends and family, think about whether and how you want to sell to them. Think beforehand about how you will not alienate others and maintain your relationships with them.

If you only want to buy products for your use at a lower price, your expectations are low and so is the risk of being disappointed. You are then like a member of a buying club: you only order what you need for yourself at a lower price. This may be beneficial for you, depending on the price and quality of the products.

Why are there so many multi-level marketing and network marketing companies if the model doesn't work?

MLMs argue that they offer great opportunities for income and self-development – and that this is why the industry grows.

But this is not true. The industry grows because many people believe the often misleading promises of the industry.

For companies, marketing their products via a multi-level or network structure is simply attractive. Distributors earn little and give access to friends and family members, who otherwise would never get to know let alone buy the company products.

In addition, for headquarters, there are no costs for salaries or social security contributions. The self-employed salespeople have to provide for themselves and the companies only pay commissions on the products that members buy.

Whether the products are used, given away, or stored somewhere, is irrelevant to the companies as they earn as soon as someone buys a product. Distributor commissions are only paid if products are bought and no salary or other costs are paid in advance.

As explained above, the worse the labor market, the better for the industry: more people give MLM a try and the first thing they do is buy the company's products. The company thus earns money directly, while the self-employed members often invest far more than they earn.

If these problems are well known, why do they still exist?

For people who aren't aware of how MLMs work, it can be hard to understand why these problems persist. Why are governments that bad at regulating the industry? Why do companies still find new members?

There are several reasons why.

1) Lobbying power

The MLM industry has a huge lobby. Big and 'old' companies like Amway have built up very tight links to US politicians and have managed to undermine regulation and consumer protection efforts.

2) Inadequate legislation

Not only in the US but also in other countries, legislation is completely inadequate. This urgently needs to be improved, see below for concrete proposals.

3) Authorities fail and no one takes responsibility

The MLM industry is very powerful and there is simply no counterweight to these corporations. It falls through the cracks and is only held accountable in very particular, extreme cases. Here are some of the most common failures:

- **Consumer protection fails:** Consumer protection only helps when the products are problematic, for example including cancer-causing ingredients. But the main problems arise from the distribution system, the working conditions, and the misleading promises, not the products.

- **Labour laws are lacking:** Since members are self-employed, there is no trade union or works council to follow up on problems. Employment rules are not applicable.

- **Cult observation fails:** Institutions responsible for observing cults and sects only feel responsible when it comes to extreme cases in their area.

- **Anti-pyramid laws are insufficient and little enforced:** Criminal prosecution rarely takes place. If a company has no tangible products, a regulator will eventually intervene but only after many participants have lost their investments. In the case of a company that offers a consumer product, even if it is overpriced, useless, or uncompetitive, regulatory action is very rare. In addition, most companies make sure that their official policies are legally sound. They read nice but have little to do with the concrete business practice. Proving the opposite is very time-consuming, and enforcement agencies simply have too few resources to follow up on what hundreds of MLM companies and their distributors are doing wrong.

4) Lack of transparency

Due to the insufficient rules and lack of responsibility, there are hardly any objective facts about companies.

Very few companies publish how many business partners they have, how much (or how little) is earned, whether and how much is sold to end customers, how long members stay with them, etc. Independent research is scarce and existing studies might simply be sponsored by the industry, and do not give an objective view.

5) "Own-fault-ideology"

Those who start are made to believe from the very beginning that everyone is responsible for their success: if you work hard enough and think positively all the time, you are supposed to make it.

But most do not. Many former members feel ashamed that they 'did not make it' and blame themselves. Shifting the responsibility for failure from the company to individuals is how the industry protects itself.

And while many people have been harmed, due to the shame of having offered the 'job' to friends, family, acquaintances, etc., former members often do not complain. If they want to complain, they might not know where – as the official institutions do not cover well the problems of the industry.

What needs to be done?

So what can be done? Here are three suggestions.

1) Better rules and regulations on the EU level

MLM companies have a particular way of working. They do not fit the traditional company, labor, or criminal rules. We need rules that are explicitly made for this industry, making the enforcement of (new and old) rules far less time-consuming and more efficient.

At the EU level, existing rules and laws relating to pyramid schemes need to be expanded and specified. As changes on the EU level are very slow, individual member states can do a lot on the national level: They can ensure that the existing patchwork rules are applied at all. In addition, they can set up a supervisory body, an authority that takes care of this industry - see next point.

2) Government-level regulation

Up to now no authority has the expertise and power to regulate the industry, provide independent information, deal with complaints, and empowered to prosecute MLM companies. Such an institution needs to be installed at a national level in each country to improve regulation and enforce rules.

As these Ministries set up rules for temporary work and contract works, they also need to develop rules for how MLMs work and attract distributors, such as the obligation to publish relevant figures (number of distributors, churn rate, purchases and sales per distributor, actual income from commissions, actual costs, etc.).

An official authority could also investigate complaints about misleading promises and unethical practices. Up to now, a central place where complaints are not only put on a stack but dealt with is missing in most countries.

3) More transparency

As mentioned, an official authority could ask companies to provide the very much-needed transparency. Now, MLM companies propagate a business opportunity, i.e. promise people to earn money.

But as studies show, most invest more than they earn. Much needed are insights into the fact and figures, and key information on the working conditions. Until now, companies rarely disclose how many members sign up each year, how many quit again, how many members earn anything at all or how much or little, what the activity costs, and whether a product can be sold to end customers at all or whether the focus is forced to be on recruitment.

An official authority can introduce and control the obligation for transparency. Such figures make it much easier for consumers, existing and new business partners, and the public to distinguish between bad and potentially good companies and to react to problems. In addition, it will make the enforcement of rules easier and less time-consuming.

Case studies

To help give you an insight into the reality behind the frequent lies and manipulation in MLMs, here are some example case studies. Please note that most are anonymous as people are fearful of retaliation if they give their identity. However these are all real people interviewed first hand.

Case study: Why even 'successful people in an MLM lose money - and miss out on time with their family. The case of Lisa Ollerton in Body By Vi
talentedladiesclub.com/articles/whats-it-really-like-as-an-mlm-rep-we-interview-lisa-ollerton-to-find-out/

Case study: "I was told to emotionally manipulate people". The case of an anonymous distributor for It Works.
talentedladiesclub.com/articles/thinking-of-joining-an-mlm-like-it-works-read-this-cautionary-tale-first/

Case study: How one woman lost over £3,000 in 18 months, despite working 12 hours a day. The case of an anonymous distributor for It Works.
talentedladiesclub.com/articles/how-much-can-you-earn-as-an-it-works-distributor/

Case study:"We were told to make fake order posts on social media". The case of an anonymous distributor for Juice Plus+.
talentedladiesclub.com/articles/the-complete-lowdown-on-mlm-juice-plus/

Case study:"To maintain your rank you had to buy products yourself". The case of an anonymous distributor for Valentus.
talentedladiesclub.com/articles/how-much-can-you-earn-with-mlm-valentus/

Case study: "The top reps cheated their way there - and the company covered it up". The case of an anonymous distributor for Forever Living.
talentedladiesclub.com/articles/what-does-it-take-to-reach-the-top-of-an-mlm-like-forever-living/

Case study: Even people at the top don't make the money they claim. The case of an anonymous distributor for Younique.
talentedladiesclub.com/articles/how-much-can-you-really-earn-as-a-younique black-presenter/

Case study: "It was cult like. No one questioned anything". The case of an anonymous distributor for Isagenix.
talentedladiesclub.com/articles/how-much-money-can-you-earn-with-mlm-isagenix/

SECTION 5

Resources for further research

Basics about MLM

John Oliver, Last Week Tonight, most famous video on how MLMs work and their problems: **youtube.com/watch?v=s6MwGeOm8iI**

Website of MLM expert Robert Fitzpatrick, providing basic as well as detailed information on every aspect of MLMs **pyramidschemealert.org**

Analyses of various MLM companies and their underlying problems

Search for a company here: **behindmlm.com**

Or on Truth In Advertising, here **truthinadvertising.org**

Talented Ladies Club investigates the real earnings (or losses) of people who join MLMs, based on information provided by the companies. In this article you will a list of the companies investigated. Click on the company you want to learn more about: **talentedladiesclub.com/articles/thinking-of-joining-a-mlm-read-the-truth-behind-the-income-opportunity/**

The list of people warning against MLM is growing. Have a look at the following content providers:

- Short TikTok videos by Hattie Rowe on various MLMs and MLM topics **tiktok.com/@hattie.rowe**
- Invested Lifestyle/Elaine Linga **youtube.com/c/InvestedLifestyle/featured**
- The Recovering Hunbot/Alanda Carter **youtube.com/c/TheRecoveringHunbot/videos**
- Life after MLM by Roberta Blevins **robertablevins.com/the-show**
- Out of MLM by Michelle Carpenter **outofmlm.info**

- Savy Writes Books by Savy Leiser
  youtube.com/c/SAVYLEISER
- The Antibot by Taylore Leigh
  youtube.com/channel/UC9LIQ1_csOAXTHOjQ_G11SA
- Monica Hayworth
  youtube.com/user/modabymonika
- Not the Good Girl by Josie Naikoi
  youtube.com/playlist?list=PL8Y2nIdFTiXMx8MzqZ8eWAVhNCnRwSlyL

Furst, J. W., Julia (Writer). (2021). LuLaRich. Documentary about LuLaRoe. Available at Amazon Prime.

See here the speakers and their presentations at the MLM-Consumer Protection Conference 2021 and 2022, including academics, watchdogs, social media activists, and regulators **mlmconference.com**

Examples of misleading MLM social media posts

You can find examples of social media posts made by MLM consultants here. We recommend anonymising the posts if you choose to use them (if they are not already anonymous). We bear no liability for use:
drive.google.com/drive/folders/1l9U7pYIjdAlkuGpfIFL6TavIoZ8tsr8v?usp=sharing

Recommended reading on some of the problems of MLM on Talented Ladies Club

Why the DSA is NOT a regulatory body and is not to be trusted:
talentedladiesclub.com/articles/what-does-the-direct-selling-association-dsa-the-regulatory-body-for-mlms-in-the-uk-do/

Are MLMs really pyramid schemes? Why you can't make money selling their products:
talentedladiesclub.com/articles/are-mlms-really-pyramid-schemes-why-you-cant-make-money-selling-their-products/

Are MLMs deliberately constructed to avoid the law?
talentedladiesclub.com/articles/are-mlms-deliberately-constructed-to-avoid-the-law/

Why there's no such thing as a free MLM car:
talentedladiesclub.com/articles/why-theres-no-such-thing-as-a-free-mlm-car/

Why people don't leave MLMs – even when they know the facts:
talentedladiesclub.com/articles/the-two-reasons-why-people-dont-leave-mlms-even-when-they-know-the-facts/

How deception in MLMs destroys people:
talentedladiesclub.com/articles/how-deception-in-mlms-destroys-people-video/

The lies and dark secrets top MLM reps are hiding:
talentedladiesclub.com/articles/the-lies-and-dark-secrets-top-forever-living-managers-are-hiding/

Four reasons why MLM companies end up in court:
talentedladiesclub.com/articles/four-reasons-why-mlm-companies-end-up-in-court/

Is it REALLY possible to make money in an MLM?
talentedladiesclub.com/articles/is-it-really-possible-to-make-money-in-an-mlm-we-do-the-sums/

Fake it 'til you make it – how MLM reps lie to recruit and sell:
talentedladiesclub.com/articles/fake-it-til-you-make-it-how-mlm-reps-lie-to-recruit-and-sell/

The 10 ugly truths MLMs don't want you to know:
talentedladiesclub.com/articles/the-10-ugly-truths-mlms-dont-want-you-to-know/

Focus on cults and toxic positivity

See extensive information by cult expert Steven Hassan
freedomofmind.com

James Jani on 'The Multilevel Marketing Cults: Lies, Pyramid Schemes, and the Pursuit of Financial Freedom.'
youtube.com/watch?v=He1bgJ0sqtw

James Jani on "The Toxic World of Self Help: Hustle Culture, Toxic Positivity, Addiction, and Fake Gurus.'
youtube.com/watch?v=dmLTLkCBSN8

Facts and figures about how many people lose instead of earn money

Representative study by the Association of Retired Persons (AARP), see here **aarp.org/aarp-foundation/our-work/income/multilevel-marketing/**

Comment to the FTC website by Jon Taylor **ftc.gov/sites/default/files/documents/public_comments/trade-regulation-rule-disclosure-requirements-and-prohibitions-concerning-business-opportunities-ftc.r511993-00017%C2%A0/00017-57317.pdf**

Survey from Magnify Money 'Vast Majority of Multilevel Marketing Participants Earn Less Than 70 Cents an Hour' **magnifymoney.com/news/mlm-participants-survey/**

Want to understand why even the top does not earn as much as people are made to believe? Watch this video of a former top-level distributor **youtube.com/watch?v=xzOt_Hmjcbo&list=PL8Y2nIdFTiXMx8MzqZ8eWAVhNCnRwSlyL&index=**

Exemplary academic studies

Bosley, S. A., & Knorr, M. (2018). Pyramids, Ponzis and fraud prevention: lessons from a case study. Journal of Financial Crime.

Bradley, C. G., & Oates, H. (2021). The Multi-Level Marketing Pandemic. Tennessee Law Review. Freely available **here.**

Cahn, P. S. (2006). Building down and dreaming up: Finding faith in a Mexican multilevel marketer. American Ethnologist, 33(1), 126-142. Freely available **here.**

DeLiema, M., Bosley, S., & Shadel, D. (2021). Multi-Level Marketing as "Gig" Work: Worker Motivations, Characteristics, and Outcomes in the US. Journal of Labor and Society, 1(aop), 1-39.

Groß, C., & Vriens, D. (2019). The role of the distributor network in the persistence of legal and ethical problems of multi-level marketing companies. Journal of Business Ethics, 156(2), 333-355. Freely available **here.**

Keep, W. W., & Vander Nat, P. J. (2014). Multilevel marketing and pyramid schemes in the United States. An historical analysis. Journal of Historical Research in Marketing, 6(2), 188-210.

[1] Source: **eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32005L0029&from=EN, accessed on 22 November June 2022.**