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## The Ethical Implications of the Multi-Level Marketing Industry

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**The Ethical Implications of the Multi-Level Marketing Industry**

**By**

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**An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of  
Science in International Business in Marketing.**

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## Table of Contents

INTRODUCTION .....	3
LITERATURE REVIEW .....	4
THE STRUCTURE OF MULTI-LEVEL MARKETING BUSINESSES.....	4
SELLING THE PRODUCTS.....	7
RECRUITMENT PRACTICES.....	7
RELIGION, SPIRITUALITY, AND PURPOSE.....	10
“BOSS BABES” AND HUSTLE CULTURE .....	11
CONSUMER HARM .....	13
CONCLUSION.....	14
REFERENCES .....	16
TABLE 1 .....	18
FIGURE 1.....	19

## Introduction

The first multi-level marketing (MLM) businesses were created in the early 20<sup>th</sup> century and have seen a substantial increase in popularity during the COVID-19 pandemic due to their work-from-anywhere nature. Multi-level marketing is “the practice of distributing, selling or supplying products or services through various levels of independent agents” (Koehn, 2001, p. 153). As working from home became the norm in the past few years, MLM businesses promised financial freedom, a steady income, and opportunities for growth, all by working on the Internet. What was often less transparent is the likelihood of these independent agents making a profit. Distributors have the possibility to earn money in two ways: one, selling the company’s products to consumers outside of the company, and two, recruiting and onboarding new distributors to work underneath them (Groß & Vriens, 2019). This structure is what characterizes MLM businesses as their own model, creating a ranked distributor network consisting of an “upline” and a “downline”. A distributor in the upline seeks to expand their downline as far as possible to earn commissions off their sales. Distributors expect to earn a comparable pay to their peers with corporate jobs yet end up required to purchase more product inventory than they can sell. “The ethical (and legal) problem is thus deception: distributors join a company to earn money, but overspend by buying company products they neither need nor are able to sell” (Groß & Vriens, 2019, p. 339).

Multi-level marketing businesses have faced allegations for unethical behavior, including company culture, targeted recruitment strategies, and misleading income disclosures. Some are compared to pyramid or Ponzi schemes due to the hierarchy of distributors. Women are promised to “be their own boss” and have more time for themselves yet end up spending much more time working without making a profit. Four overarching themes emerge within this topic: (1) inconsistencies between expected versus actual earnings of distributors, (2) the disproportionate number of women working in this industry, (3) the use of neoliberal and feminist rhetoric in recruitment and retention practices, and (4) spirituality and religion within the company culture.

This project drills into the recruitment practices, sales tactics, and compensation plans of MLM companies and how these factors may intersect with the gender and religion of the distributor through analyzation of secondary sources. Along with the literature review, I generated a small questionnaire that was asked to a few respondents. I completed the Institutional Research Board (IRB) protocol form and received approval to conduct interviews. Respondents, based on their history with the multi-level marketing industry, were asked questions relating to their recruitment into the company, their confidence of financial success, and any challenges faced or benefits received through their participation in the business. Participants A, B, and C became product distributors, Participant C is still part of her company, and Participants D and E experienced recruitment tactics of certain multi-level marketing companies. It is important to note that this number is not a representative sample of all MLM business participants; their statements are used to add depth and context to the current literature. I will also compare and differentiate multi-level marketing firms to illegitimate pyramid schemes. In this paper, I will analyze how people, mostly women, become involved in the business of multi-level marketing.

## Literature Review

Multi-level marketing (MLM) companies have a unique business structure that includes a product distributor network, who make money by both direct sales of the company's goods or services and by recruiting others to become part of the network. Those who are recruited become part of the original salesperson's downline, and they not only earn commissions on the products they sell themselves, but also the products sold by the distributors beneath them. The sales force of the firm is responsible for the training and monitoring of their new recruits, transforming fixed onboarding costs to variable costs (Keep & Vander Nat, 2014).

### The Structure of Multi-Level Marketing Businesses

The multi-level marketing business industry is considered controversial for several reasons. One reason is that some MLM companies have been accused of being illegal pyramid schemes. Pyramid and endless-chain schemes are fraudulent business models that rely heavily on the recruitment of new members to generate income, rather than on the sale of products or services (Koehn, 2001). MLM firms, however, are considered a form of direct selling organizations (Vander Nat & Keep, 2002). Direct selling involves the process of selling products directly to consumers through door-to-door sales, home parties, and demonstrations, which are strategies that MLM companies use (Vander Nat & Keep, 2002). What differentiates different direct selling businesses from MLM businesses is the multi-level hierarchy structure (Groß & Vriens, 2019). At the very top level of an MLM business are the company executives, with the most successful distributors beneath them. At the bottom of the hierarchy are the lower-level distributors that make up most of the company (Groß & Vriens, 2019). The hierarchal structure of these businesses serves to incentivize distributors to sell more products and recruit more individuals into the network using commissions and bonuses, as distributors earn a percentage of the sales made by the people they have recruited (Vander Nat & Keep, 2002). However, this structure is what is often compared to a pyramid or Ponzi scheme.

The key difference between pyramid schemes and legal MLM businesses is whether or not the company focuses on product sales or on recruitment as the primary way for members to earn money. In a legitimate MLM business, representatives earn most of their money through product sales to customers, as well as a percentage of the sales made by members in their downline. Amway's "70% rule" is an example of countermeasures taken against pyramid allegations. This rule states that 70% of a distributor's monthly product purchases be resold to a customer outside of the organization (Keep & Vander Nat, 2014). However, over time, this specific definition of the rule has loosened. Amway's report of their rule is as follows:

In order for an IBO to obtain the right to earn a Performance Bonus or receive recognition due on all the products the IBO purchases, an average of 70% of the IBO's personal Business Volume (BV) per month must come from products sold at a commercially reasonable price; if the IBO fails to meet this requirement, then such IBO may be paid that percentage of Performance Bonus measured by the amount of products that can be shown to have been actually sold in a particular month, rather than the amount of products purchased and recognized accordingly. For purposes of this Rule, a reasonable amount of products used by IBOs in the ordinary course of operating their Amway businesses can contribute to the 70% average. (Amway Corporation, 2018, Rules of Conduct Section 4.12)

The policy does not clarify that the products must be sold in the retail market and does not clarify what a “reasonable amount” would be. This has led to confusion and difficulty in executing the rule in situations of inventory loading.

Similar to 70% rule are buy-back policies for unused and unsold inventory to prevent inventory loading by distributors (Greenberg, 2021). Inventory loading occurs when a distributor purchases large volumes of the firm's products, more than they could actually sell, in order to meet a sales goal (Crittenden & Albaum, 2015). This occurs because many MLM businesses provide bulk discounts to distributors (Backman & Hanspal, 2022). Naturally, to lower costs, distributors may order large amounts of inventory at a discount with the intention to resell. Crittenden and Albaum argue that distributors may simply be engaging in internal consumption, which is when a consumer has a genuine demand for and purchases the company products for their personal use (2015). However, the data the businesses provide comparing distributor purchases to non-distributor purchases is often self-reported and unverifiable (Keep & Vander Nat, 2014). Buy-back policies are complicated and make it hard on the distributor to return their unused product (Greenberg, 2021). Therefore, it is difficult to determine if and to what extent this internal consumption occurs, and if distributors are truly able to relieve some of the inventory they store.

Another kind of firm-provided data that is important to analyze is the income disclosure. While it is known that most people who join an MLM company will make little to no money or even incur a loss (Federal Trade Commission, 2022), this information needs to be obscured in some way for any new distributors to rationally join the company. The MLM business and the individual distributors have different ways of calculating net income; some will subtract training costs and cost of inventory, and some will not (Wrenn M. V., 2022). Further, income disclosures often only include data from distributors considered as “eligible” or “active”, which usually means those that were able to sell a certain amount of product or have paused their business (Liu, 2018). Participant C from my survey is currently “inactive” in her MLM company, as she put her subscription to sell the products on pause but can un-pause at any time. The fine print of these income disclosures usually states that an individual's outcome in the company depends on how much effort they put in and their own selling skills. Some examples pulled from a few companies' income disclosures are cited below:

Success with IT WORKS! results only from selling IT WORKS! products, which requires hard work, diligence, and leadership. Your success will depend upon how effectively you exercise these qualities. (IT WORKS!, 2022)

Generating sales compensation as a Brand Affiliate requires considerable time, effort, and dedication. Success will also depend upon your skills, talents, and leadership abilities. (Nu Skin Enterprises, Inc., 2021)

There are no guarantees regarding earnings, and the success or failure of each Arbonne Independent Consultant, like any other business, depends on many factors, including your own skills and personal effort. (Arbonne International, LLC, 2022)

At the corporate level, MLM companies understand the legal need to accurately display earnings data. They disclaim that the numbers presented are before expenses are subtracted and state that financial success is not guaranteed. Nevertheless, some critics argue that the lack of stated costs can create an optimistic bias to potential recruits (Liu, 2018). However, as the structure of the businesses allow individual distributors to do their own marketing and recruitment, the

opportunity is often misrepresented. Participant E from my survey remembered that no specific numbers were given to her during her recruitment call; “There was no income disclosure mentioned or anything like that. So at the end of the call I genuinely thought I should maybe consider this as a way to make some money”. When there are hundreds of thousands of distributors in an MLM company, it would be unreasonable for the business to monitor every individual’s marketing promotions, even if it is required by the company to post these in a certain way. An example of an FTC-cited earnings claim by a distributor is quoted below:

Will you get a stimulus check? . . . [W]ould a extra \$4,100 change your family lifestyle? Well my firm is offering that and more . . . Text Isagenix to [5 digit SMS text number] (Gressin, 2020, para. 7)

This promotion warranted a warning from the FTC, which shows the importance of accurate income claims by marketers. A study by Bosley, Greenman, and Snyder (2020) found that the presence of the income disclosure significantly reduced earnings expectations in students compared to when they only had seen marketing materials provided by the firms themselves. Respondent D from my survey, who completed an interview with what was advertised as a small marketing firm, but was actually part of a much larger MLM company with a different name, noted that “I would never have gotten on that interview call had I known what the actual pay was like. I thought it was going to be a regular salaried job but there were only commissions, and those were pretty small”. This emphasizes the importance of including the income statement to prospective consultants.

Other policies that designate an MLM business as “legal” is that there is no required entrance fee over \$500 to sign up with the company (Liu, 2018) (Greenberg, 2021), and that there is no bonus given to distributors for simply recruiting someone underneath them (Liu, 2018) (Albaum & Peterson, 2011). There should also not be a coercion to purchase a surplus of product inventory (Albaum & Peterson, 2011). New distributors are usually required to purchase an inventory starter kit or other sales material upon starting with the business (Koehn, 2001). To join It Works!, potential distributors can choose between three welcome packages, costing either \$99, \$149, or \$249, which include a varying product selection and a “Business Builder Kit” (which includes a personalized app and website link for purchases that requires a \$20/month subscription after the first month) (IT WORKS!, n.d.). Amway requires \$76 to initially register as an Independent Business Owner, and \$76 to renew this membership annually (Amway, 2021). Each interviewee noted that they purchased a starter pack when they first got started, and sometimes there were different options for them to choose from. Participant C shared that “There were three different levels of starter packs; I bought the one that had all of the products, so I had everything to show”. However, in my survey Respondent A noted that she only had one starter kit option, that she felt was “way too expensive”. While these requirements are deemed legal, it is important for potential recruits to note that even just becoming a distributor comes with a cost that should be accounted for.

The MLM business industry has learned what does and does not constitute pyramid scheme activity and has adjusted their policies accordingly. The FTC notes that “if the MLM is not a pyramid scheme, it will pay you based on your sales to retail customers, without having to recruit new distributors” (Federal Trade Commission, 2022, para. 6). As Albaum and Peterson put it, “What is being sold - a product/service or the right to sell a product/service?” (2011, p. 352). When most profit is made from recruitment of new members is when the legality of the MLM firm is questionable.

Several popular MLM businesses have been prosecuted by the FTC for pyramid scheme activity. Notably, the company *Advocare*, which sold products like energy drinks and supplements, was banned from the multi-level marketing industry and paid a fine of \$150 million after being accused of focusing on recruitment over sales and claiming that consultants could receive “unlimited income” (Gressin, 2019) (Greenberg, 2021). In a similar case, *Herbalife* paid a fine of \$200 million and was required to restructure their compensation plan after their FTC lawsuit in 2016 (Greenberg, 2021). The complaint found that *Herbalife's* "sales leaders" who sold the company's products made, on average, less than \$5 a month (Greisman, 2016). The fine was divided and then paid out to those distributors who lost money (Backman & Hanspal, 2022). These cases highlight several facets of the ongoing criticism about the MLM business industry.

## **Selling the Products**

As illustrated above, product sales are crucial for legal MLM companies. As direct selling organizations, these businesses’ sales are direct-to-consumer (Keep & Vander Nat, 2014). Critics argue that these retail sales must be primarily for end-consumers in an ethical company, rather than for people already inside the company (Koehn, 2001). For my survey respondents, sales were typically virtual through social media platforms. During their time in the company, participants typically had sales goals to reach, with Participant A sharing that she was put into a group message with her upline and two other girls that were also recruited. Their upline would send messages such as “Y’all should reach (sales goal) by (date)”. Participant C stated that her business website would set goals for distributors. “They were just to incentivize you, usually it was a lot higher than what I set for myself. My personal goals were probably half or less than half of what the website had”. Actually making sales proves difficult for many product distributors, and interview respondents agreed. Due to the responsibility of distributors to engage in their own marketing, encouraging sales involved reaching out on their own terms to potential customers. Many workers in the direct selling industry feel that this practice improves their professional skills (Peterson, Crittenden, & Albaum, 2019). Some respondents found that it came easy to them: “I enjoyed (trying to sell products). I liked talking about it. I got really excited when people asked me questions about it. Whenever people would talk to me about their skin or skin problems, I would always use that as an opportunity to tell them about it. I usually had a discount code that I could give them. I never tried to push it too hard but tried to bring it up when I could” (Participant C). On the other hand, this practice was difficult for some distributors. Respondent B “would feel excited about the potential for sales but I also felt nervous and uncomfortable. I was worried about coming off as pushy” and Participant A “felt embarrassed (trying to sell my products to others). I felt like I was annoying people; I felt awkward. As an introvert, that was probably the most uncomfortable thing I did in my entire life”.

## **Recruitment Practices**

Another reason MLM businesses are criticized is that their recruitment often relies on high-pressure tactics to encourage people to join the company. Some MLM companies have been criticized for making unrealistic income claims, encouraging their representatives to buy large amounts of inventory, and for focusing more on recruiting new members than on selling products. Distributors often recruit and advertise their products to people they have a personal connection with, such as family and friends, because the consultant can use their high level of



trust within their relationships to assist with sales and recruitment (Koehn, 2001). Participant E stated that someone who was like “the big sister she never had” growing up reached out to her to video chat to “catch up on what they have been up to”, which turned out to be a recruitment pitch that her upline joined as well. Respondent B recalled that she was recruited by an old friend from high school, and Participant C shared that her aunt reached out to her about starting to sell the MLM company’s products. While some argue that selling to or recruiting family or close relationships is not unethical, as they have the ability to say “no” (Albaum & Peterson, 2011), it can be argued that these relatives may still feel pressured out of making their own decision. Participant E added that “I almost felt like I needed to say yes to joining her team out of fear that I would hurt her feelings. So instead of just saying no I said I would think about it”. Many distributors have the expectation that these groups should be willing to help them with their business, and those who are not are said to not be “true friends” (Groß & Vriens, 2019). This strategy turns human relationships into a sales opportunity and can put a strain on the relationship if the business doesn't go as planned or if the family member or friend feels pressured to purchase products (Koehn, 2001). Moreover, friends of the distributor may want to distance themselves from the constant business pitches, leaving the distributor isolated (Wrenn M. V., 2022). Relationships can become transactional rather than emotional, and these interactions can occur either in-person or through social networks.

These high-pressure recruitment tactics often occur through social media platforms such as Facebook or Instagram. Product distributors use social media to reach out to potential recruits via direct messaging, advertise company products, or share the benefits they receive from the business. Some interview respondents shared that they were initially recruited through social media: Participant A stated that she was recruited into her company by a member of her sorority during the summer of 2020, during the height of the COVID-19 pandemic. “She posted something on her Instagram story, and I clicked that I was interested, like a poll. I would see similar posts with the quote ‘you can make money just from your phone’”. After recruitment, the same respondent was encouraged to post on social media on her own: her upline instructed her to “Post a lot on your story especially when you get your starting kit!” Participant C said that “every time I posted something, (my aunt) would usually slide up and say this is good or give me suggestions to try this to get more views, do polls, interactive things”. Some companies and their distributors move past the typical social networks and advertise opportunities on job boards such as LinkedIn. For instance, Participant D noted that she came across a job posting on LinkedIn for an entry-level marketing job, which was not clear that it followed a multi-level compensation structure. While advertising the business opportunity to prospects, ethical issues may arise: one of which is misrepresentation of the job to make it seem more attractive. Recruiters promise an easy way to achieve financial freedom by working in an industry with unlimited market potential. Using success stories from other representatives, MLM firms promote that it is possible for anyone to be successful in the business (Koehn, 2001). However, actual average earnings and expected costs are not usually disclosed in this conversation. This can create a false impression of the potential earnings and may leave them with unexpected expenses, as the factors behind each success story can vary greatly.

With the possibility of this deception and harm occurring to users, some social media sites have acted against MLM business content, such as video platform TikTok. In December 2020, the app updated their community guidelines to say that any content that “depicts or promotes Ponzi, multi-level marketing, or pyramid schemes” were no longer allowed on the network (Akhtar, 2020, para. 6). This decision reflects an increasing awareness of and concern

over the detrimental effects of these business models, especially on the most vulnerable people who may be targeted or taken advantage of by MLM businesses. Furthermore, evidence shows that what is advertised through social media promotion by product distributors intend to recruit women.

### **The Overrepresentation of Women**

Certain groups may be more at risk of targeted multi-level marketing company recruitment. With 75% of industry participants identifying as women (Blackman, 2021), these companies have a distinct strategy of appealing to stay at home moms or single mothers in particular. First, MLM firms often sell products that more often appeal to women, such as skincare, makeup, and workout clothes (Blackman, 2021). More women would logically want to consume and share these products. Additionally, social and cultural norms that emphasize the female responsibility to care for her family may make the multi-level marketing industry very attractive to women. Company recruiters emphasize that these women can achieve work-life balance and freedom to spend time with their family which may not be possible in other industries or was previously inaccessible to women (Wrenn & Waller, 2021). Mothers with a partner that works full time may feel they have no choice but to do part time gig work, allowing them to contribute to household income while still spending time at home (Frederico, 2020). With most work being done online, prospects can work from virtually anywhere and at any hour. For those looking for a flexible work-life balance, MLM businesses seem to offer the perfect job opportunity. It seemingly allows for women to fuse their desires to contribute both financially and socially to their home.

Additionally, women receive social relationships from their sales teams (Wrenn & Waller, 2021). MLM businesses regularly have a rhetoric of “women supporting women” and female empowerment (Wrenn & Waller, 2021). When thinking back on her recruitment, Participant B recalled that her close friend advertised the ability to work with a team of “amazing, empowering girls”. Participant E stated that a main talking point used by the woman who was recruiting her was “joining a group of other women to complete a wellness challenge and get started on using the products”. Women may be more susceptible to these recruitment pitches because they are often socialized to be trusting, caring, and relationship-oriented (Liu, 2018). The sense of community within multi-level marketing businesses can be a powerful motivator for distributors, as it creates a sense of belonging and support. The distributor networks in this industry offer women a group of like-minded others, including similar spiritual beliefs, that will keep them inspired and encouraged. Bravenly Global, a health and wellness MLM company, considers their distributor network a “family” and announces that they are “valued and appreciated” (Bravenly Global, n.d., para. 3). MLM companies argue that instead of becoming an unimportant number in a typical, large corporate company, they offer a community. However, this community can also be used to manipulate and pressure distributors into continuing to invest time and money into the business, even when it may not be financially beneficial for them.

While it is not inherently wrong for MLM businesses to have an industry composed widely of women, it becomes problematic when the reasons women are attracted to these businesses do not actually occur, such as earning an extra income for their family, or finding a full-time job to fully support themselves. It is a fact that most of those in MLM companies end up breaking even or losing money (Liu, 2018), making the reality of the business an unprofitable

one. Women, especially those who are facing economic challenges, may feel helpless when their job in multi-level marketing ends up costing them more money than they are earning.

## **Religion, Spirituality, and Purpose**

A second targeted group for recruitment includes members of organized religious groups. One of the possible reasons that religion is popular within this industry is because there may be a correlation between religiosity and the risk of falling victim to financial fraud (Bosley, Greenman, & Snyder, 2020). In context of MLM firms, this might be attributable to the community aspect of religion. The MLM business industry and religion have become intertwined in some instances, with many businesses being defined as quasi-religious enterprises (Wrenn & Waller, 2021). Religious groups often have a “heightened reliance on trust” that may make them especially perceptible to joining a multi-level marketing firm (Blackman, 2021). Some company representatives may use their religious faith to connect with potential customers or recruits, abusing their relationship of trust and belonging with others. According to a testimonial in Business Insider, “Inviting people to your parties and converting them to share in your supposed monetary abundance is no far leap from convincing people to come to church with you to share in your spiritual blessings” (Conroy, 2022, para. 9). Likewise, Participant E commented that she grew up going to church with her recruiter, and that she brought up the “community of godly women” in the recruitment pitch. Some businesses reference religion more explicitly: Bravenly Global, a company founded in 2020, quotes in “The Bravenly Story” that their founder began their network marketing career “with a God-sized dream in her heart” (Bravenly Global, n.d., para. 2). In this company, religion is not only integrated within the distributor network but also the corporate leadership.

While there are also many MLM businesses that are not explicitly religious, several have spiritual rhetoric in their messaging. They often promote that God or another higher power places people in the industry for a reason. A study by Pavelko and Barker (2022) analyzed three popular MLM companies, Young Living, Younique, and It Works!, and found that all three incorporated faith or spirituality into their motivational messaging. For example, It Works! included a video of the founder’s son, Kyle Pentecost, explaining that he chose to join the family business because “God put him in a better place” (Pavelko & Barker, 2022, p. 411). Another example of faith-based messaging is that some businesses refer to profits as “blessings” (Liu, 2018). This messaging can be especially appealing to people who are looking for a sense of purpose or meaning in their lives. They may see their work as a means of helping others. Mission statements often include religious, spiritual, or purpose driven themes and insinuate that this is more than just a job, it is a lifestyle:

To carry yourself with strength and courage. Leading others in fairness and truth in a way that respects God. Living honest and honorably. To live life Bravenly, means learning to discern the heart of a person by listening to them and passionately pursuing your purpose. (Bravenly Global, n.d., para. 5)

We are guided by nature's journey in our mission to empower wellness, purpose, and abundance for communities around the world. (Young Living Essential Oils, LC, n.d., para. 3)

Our greatest pride rests in the lives we change through our incredible opportunity, because changing lives is a business with true purpose. (Monat Global Corporation, n.d., para.2)

Every connection made, every story told, and every product sold is a step towards a safer world. This work matters. Your voice matters. (BeautyCounter, n.d., para. 1)

Interestingly, each of the businesses cited above and several others have a company-founded charitable foundation. These include the It Works! Gives Back Foundation, the Young Living Foundation, the Flourish Arbonne Foundation, the BEYOND Bravenly Foundation, and the MONAT Gratitude Foundation. This could also help contribute to the positive language surrounding MLM business promotion, improving their social perception and convincing prospects or current distributors that they are bettering the world around them through their work.

MLM businesses also use religious themes such as the Christian Prosperity Gospel. The Prosperity Gospel, or PG, is the belief that a strong faith in God will lead to material rewards and riches. A lack of these rewards signifies a lack of faith, as the PG teaches that believers already have wealth, they just have to claim it (Wrenn & Waller, 2021) (Wrenn M. V., 2021). It creates a sense of “predatory optimism”; maintaining a strong belief in the unlimited potential of the MLM business leads to success, while any doubt will hinder chances of financial gain (Wrenn & Waller, 2021). The Prosperity Gospel does not consider the topic of money and wealth taboo like other sects of Christianity (Wrenn M. V., 2021). For MLM product distributors, the PG rhetoric can be used to justify the pursuit of financial success and wealth as legitimate and even righteous. The hustle or anti-leisure culture within these businesses is exposed through this messaging.

### **“Boss Babes” and Hustle Culture**

The demographics inside the MLM business industry develop a common culture within the it. Many companies promote a high level of positivity and constant personal development. This “grit” is considered a key to success in the industry (Liu, 2018). Distributors with grit call themselves “boss babes” or “girl bosses”, terms that describe the ideal, successful MLM business associate (Greenberg, 2021). Sometimes they are called “mom bosses” or “mompreneurs” if they have children. This image is advertised at the same time as the promotion of the ability to only work when you want to (Wrenn M. V., 2022). Distributors believe that this independence is unable to be found in traditional work that requires employees to be away from home from 9-5 (Wrenn & Waller, 2021). In my survey, interview respondents were usually attracted to the flexible working hours: Participant B was “attracted to the flexible working hours because it could work with my class schedule” and Participant C stated “The hours were so flexible, I could do it anytime, anywhere. It was really just talking to people and having consistent customers”. Despite the flexibility, it would not be possible for most distributors to work in their MLM company full time as the typical distributor does not earn a living wage: for example, the average earnings for an It Works! Distributor, across all levels, was \$304 monthly in 2022 and 85.17% of all Distributors made \$87 monthly on average (IT WORKS!, 2022). This is before any expenses on running their business. There is a large contradiction between the idea of freedom from the typical job, and the belief that success depends on the distributor’s level of effort, work ethic, and motivation. It Works!’s income disclosure states that being a successful product distributor

“requires hard work, diligence, and leadership” (IT WORKS!, 2022, para. 2). Participant C illustrated how this challenge manifests within the business: “With something like this, even though it is flexible, I still have to work at it, and work on it honestly every day, even if it’s just ten minutes or an hour, to be successful”. These conflicting expectations can lead to pressure to constantly present a positive image of hard work and dedication to the business despite actual success and to avoid discussing any challenges or frustrations.

The belief that positivity leads to success intersects with the feminist attitudes within the businesses. Success in an MLM business is often defined as a woman gaining the independence to work whenever or wherever she pleases while maintaining a foot in her home life and becoming a boss babe (Liu, 2018). The concept of the boss babe is a personal brand and an aesthetic; it provides an image and identity for distributors to strive for: a female entrepreneur that is confident, ambitious, and successful. Some critics argue that this idea is actually antifeminist: to outsiders, the boss babe often looks desperate and is not promoting the idea of a successful woman (Wrenn & Waller, 2021). To some, MLM companies may look like they promote traditional gender roles by promoting the indication that women should look for alternative forms of work as they need to be available in their home. Participant A remarked that her thoughts about distributors promoting their businesses changed: at first, she thought “you can work from home, you can get a new white Mercedes-Benz, like yeah, I want to do this. Now I feel that they are just delusional. I feel like they are scammers”. This statement expresses how both disillusioned former distributors and industry critics may view those who identify as entrepreneurial boss babes.

Multi-level marketing business rhetoric also aligns with neoliberal ideals of individualism and entrepreneurship (Wrenn M. V., 2022). The independence offered within the company comes with the distributor’s responsibility to run their own sales business, providing all services, training, and recruitment for themselves (Wrenn M. V., 2022). Like Participant C said, “You do better because of you”. This attracts some potential recruits: Participant B mentioned that during recruitment she “also liked the emphasis on professional development”. This can create a sense of ownership and control for distributors, who often see themselves as entrepreneurs or business owners. Understandably so: the title ranks of MLM companies tend to inflate the true position of the distributor; for example, Bravenly Global’s second and third ranks (out of nine) are named “Senior Brand Partner” and “Executive Brand Partner”, respectively (Bravenly Global, n.d.). These titles could serve as motivation and create something impressive to strive towards. Sometimes, the independence provided by MLM businesses can lead to a “blurred boundary between work, home, and religion” (Liu, 2018, p. 132). This relates to the neoliberal aspect that the needs of the economic sphere invade the needs of the social and cultural domains (Wrenn & Waller, 2021). For this kind of gig work, there is no determined “clock in” or “clock out” times. If a distributor wants to work from home, their flexible working schedule can overlap into the time they would usually be able to focus on their family (Liu, 2018). Suddenly, financials are deemed more important than social interactions without any business activity.

Groß & Vriens (2019) describe multi-level marketing companies as “total institutions”. MLM companies can be extremely time-consuming and can require a significant amount of effort and investment. Sometimes, they become all-consuming. Groups of distributors are encouraged to attend emotionally charged company events and conferences, further infusing the company culture within their lives (Liu, 2018). Examples of these events include the We Are One Tour (ItWorks!), the Younique Convention, and Monat’s MONATions. At these conventions, individuals will often hear success stories from company executives or high-up

distributors as inspiration that they can one day reach their level on the hierarchy (Liu, 2018). While company conferences are a normal practice in many industries, those of MLM companies differ due to their emphasis on virtue and purpose. These events often do not pay for their consultants to attend (Federal Trade Commission, 2022). Additionally, the content of these events varies from others. For example, MLM business conferences often discuss the morality and pure motives behind their business (Koehn, 2001). While a purpose-driven business is generally seen as a good thing, it becomes damaging when the purpose is not truly fulfilled; sometimes; distributors claim that they derive more joy from “changing lives” than receiving any economic gain (Koehn, 2001). Unfulfilled promises to distributors about finding a purpose can be regarded as ethically problematic. And when a distributor is socialized to believe that any criticism of the industry just comes from haters, their mindset prevents them from hearing any well-founded concerns about the industry. Groß & Vriens discuss that MLM company members need mutual validation from their peers (2019). They affirm one another that this business will work out for them if they work hard enough. The distributor network is constantly communicating with one another, up and down the hierarchy, ensuring that their worldviews become intertwined, and the members have the same idea about the morality of the company and their possibilities of success.

When the MLM business becomes so embedded into a consultant’s life, it is difficult to leave the business. Distributors are often recruited by people they know and trust, and in turn they recruit more people they know, which can cause fear of disappointing this community they have built around them (Blackman, 2021). Distributors often have a strong faith and loyalty in the company and their peers and leaving the business might feel like a betrayal of this loyalty. Additionally, because success in an MLM firm often requires a financial investment, leaving the business may mean losing money that has been invested in products, training, and other expenses (Liu, 2018). Distributors may not have another income stream outside of the business to return to after leaving. Sometimes, they may be leaving behind some of their only friends. The way MLM businesses integrate themselves into the financial, cultural, and social lives of distributors leaves them feeling that they have no choice but to stay.

## **Consumer Harm**

Beyond recruitment and company culture, many of the actual products that MLM companies sell have been criticized as unethical and even dangerous to customers. As with many marketing strategies, MLM businesses tend to exaggerate the benefits of their products. However, with little control over what the distributors say, several companies have faced scrutiny or legal trouble for false health claims (Groß & Vriens, 2019). Inaccurate health claims can mislead consumers and possibly harm their health. For example, even after Utah-based company doTERRA was reprimanded for claims that their essential oils could cure or prevent COVID-19, the company donated 1 million of their “On Guard” wipes, containing 70% ethyl alcohol and a blend of essential oils, to Utah schools (Cain, 2021). Utah governor Spencer Cox thanked doTERRA on Twitter for their help “tackling major challenges like the COVID-19 pandemic” (Cain, 2021). Other large MLM companies that were accused of unfounded Coronavirus prevention claims include Arbonne, Plexus, Isagenix, and Melaleuca (Voytko, 2020). A Plexus distributor posted the following, part of the grounds for an FTC warning letter that the company and several others received:

#VIRUS\_CORONA Worried? I've been boosting my immune system for several years with high-quality Plexus supplements. You can too! #Plexus provides excellent all-natural supplements that truly work. Be sensible –not fearful. Scientifically formulated & doctor-approved! Ask me! (Gressin, 2020, para. 6)

A Youngevity distributor posted the following:

With these, your body will be able to withstand and eliminate Covid-19 and the vaccines forthcoming for Covid-19. Also get your Rebound FX – Stay Safe. #youngevity #flattenthecurve #covid19 #coronavirus (Gressin, 2020, para. 5)

With the multi-level structure allowing distributors to handle their own marketing, incidents like unfounded health claims that cause much trouble. These kinds of claims occurred during other epidemics as well: similarly, in 2014 the FDA sent warning letters to three companies, two being essential oil manufacturers Young Living and doTERRA, that their distributors were marketing the products as Ebola virus cures (Ohlheiser, 2014). The MLM business structure that allows distributors to handle their own marketing and promotion leads to a difficulty in monitoring any claims made that could mislead and harm consumers, whether intentional or unintentional. MLM companies should be responsible for ensuring that their distributors follow appropriate marketing guidelines.

Sometimes, the MLM companies' products themselves have been related to physical harm to consumers. Several cases of hepatotoxicity throughout the globe were claimed to be associated with long-term Herbalife product consumption: however, it is unsure if there is a true causal relationship between the liver injury and product use (Zambrone, 2015). Several class-action lawsuits have been brought against haircare company Monat, with claims that the products resulted in hair loss, and scalp damage (Stocker, 2019). While this thesis does not focus on the safety of MLM company products, it is important to discuss especially when trusted professionals become distributors for an MLM company related to their job. For instance, when a hair stylist, dentist, or physician offers MLM company products for sale in their place of work. The relationship between a client/patient and an industry professional relies on trust (Koehn, 2001). Patients, who place a large degree of trust in this relationship, may be misled about the effectiveness and safety of these products, which can potentially harm their health. The professional has a responsibility to maintain credibility and have the client's best interest in mind rather than promoting products for personal financial gain.

The culture within the multi-level marketing business industry includes attitudes of feminism, unwavering positivity, and religion that combine to make a potentially toxic environment for participants. While different than illegal pyramid schemes, there are many ethical concerns surrounding MLM businesses. Aggressive and deceptive recruitment techniques, a "hustler" mindset, and toxic positivity raise questions of the validity of the lifestyle they create. Additionally, several studies show that 99% of all distributors lose money (Wrenn & Waller, 2021). These risks must be analyzed by individuals and acknowledged by companies in order to protect vulnerable participants in the industry.

## **Conclusion**

In conclusion, multi-level marketing companies have generated much controversy in recent years. Although some distributors have achieved success in these businesses, more have incurred emotional, relational, and financial losses. This paper has discussed some of the most significant ethical issues associated with MLM businesses, including the financial risks

associated with the business, the potential for distributors to make inaccurate health and earnings claims, and the impact of participation on relationships and communities. MLM companies have been known to mislead people, especially women and members of religious groups, by promising financial freedom and flexible work hours (Liu, 2018). In reality, many of these businesses contain similarities to a pyramid scheme model that focuses on the recruitment of new distributors rather than product sales which frequently ends in financial losses for the majority (Federal Trade Commission, 2022). They also create a culture of individualism and pressure participants to prioritize the business over other important aspects of their lives. While supporters of the industry argue that MLM business practices are not unethical, and are even common in other business models, evidence presents the fact that the unique distributor network creates an unmonitored environment for marketing, recruitment, and sales. With overhead costs shifted to individual distributors, not only do they often incur unexpected costs, but are left to their own devices to make their business successful. Any industry that allows deception to thrive should be regulated and enforced thoroughly. The research presented in this thesis suggests that multi-level marketing businesses exploit vulnerable individuals for the benefit of a few. It is important to raise awareness about the ethically problematic practices of many of these firms and for individuals to be fully and accurately educated about the potential risks before considering participation in an MLM company.



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**Table 1**

*Interview Questions*

Tell me about your experience with MLM recruitment. Did a friend or family member reach out to you, or was it a stranger? How did they inform you about the business?
What made you decide to join the business/what attracted you to it? Was it the potential for secondary income, the flexible working hours, etc?
Did you feel adequately and accurately informed about the business opportunity?
What was the onboarding process like? Did you receive any training?
What was your compensation plan?
Were you informed about the compensation structure of the MLM, i.e. the “upline” and “downline”?
Upon joining, how confident were you that you would succeed in this business?
How did the person who recruited you motivate you? Did you maintain a relationship with this person?
Was there a financial expectation for you to join, i.e. purchasing a “starter pack” of products?
Tell me about the products you sell/sold. How confident were you in the products’ effectiveness?
Do/did you keep track of the profit you collect from your job? By profit I mean your revenue minus losses.
Do/did you continue to invest in your business after any initial purchases/consume any of the products yourself?
Do/did you have a specific sales goal to meet every month?
About how much time do/did you spend working for your business per week?
How did you feel while trying to sell your products to others, or recruit them to your team?
How many times were you promoted to a new distributor level?
What benefits do/did you receive in this industry?

What challenges do/did you face in this industry?
What is your favorite and least favorite part of this job?
(If no longer part of the MLM) Why did you choose to leave the business?
What do you wish everyone knew about the MLM industry?
What questions should I have asked you?

**Figure 1**

*IRB Approval Letter*




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**To:** Lauren Elizabeth Longworth  
**From:** Douglas J Adams, Chair  
 IRB Expedited Review  
**Date:** 04/04/2023  
**Action:** **Exemption Granted**  
**Action Date:** 04/04/2023  
**Protocol #:** 2302453583  
**Study Title:** Ethical Implications of the Multi-Level Marketing Industry

The above-referenced protocol has been determined to be exempt.

If you wish to make any modifications in the approved protocol that may affect the level of risk to your participants, you must seek approval prior to implementing those changes. All modifications must provide sufficient detail to assess the impact of the change.

If you have any questions or need any assistance from the IRB, please contact the IRB Coordinator at 109 MLKG Building, 5-2208, or [irb@uark.edu](mailto:irb@uark.edu).

cc: Dan Worrell, Investigator