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What's in a Name? Public Perceptions of Multi-level Marketing

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Abstract — This paper presents the results of a nationwide survey of the American public's general familiarity with, and perceptions of, multi-level marketing, direct selling, and social selling. Survey respondents were most familiar with direct selling; there was no substantive difference in familiarity with multi-level marketing and social selling. Respondents familiar with the three terms possessed perceptions of them that were significantly more positive than were the perceptions of respondents reporting not being familiar with the terms. Across all terms, male respondents reported being more familiar with, and more positively disposed toward, them than did female respondents. Respondents 55 years of age or older were less familiar and less positively disposed toward all three terms than were younger respondents. Overall, greater levels of reported familiarity were associated with more positive perceptions.

Keywords — Multi-level Marketing, Direct Selling, Public Perceptions

Relevance to Researchers and Practitioners — Researchers measuring general public perceptions of multi-level marketing need to take into account existing familiarity with the term as well as demographic segments within the public. Practitioners employing a multi-level compensation structure need to increase public familiarity with the term and better communicate its benefits.

Introduction

William James, the father of American psychology, frequently noted that, “Thoughts become perception, perception becomes reality.” When the public perceives companies or an industry negatively, whether those perceptions are based on facts or misconceptions, there can be far-reaching effects on attracting and retaining customers, competent employees, managers, and investors. Similarly, public perceptions and opinions can influence government's adoption and implementation of public policy and rules regulating companies and industries as well as societal norms generally.

This article focuses on the perceptions of the general public toward the most popular manifestation of direct selling—multi-level marketing. At the risk of grossly over-simplifying, direct selling is “face-to-face selling away from a fixed retail location” (Peterson & Wotruba, 1996, p. 2). Multi-level marketing, often abbreviated as MLM, is commonly referred to as network marketing or referral marketing. At its essence, the term multi-level marketing simply means there is more than one level of salespeople between a direct selling company and its customers. MLM companies offer for sale products and services ranging from cookware to houseware, cosmetics,

nutritional products, clothing, energy, and insurance. Their revenue comes from a non-salaried workforce of (direct) sellers who, depending on the company, are referred to as distributors, consultants, associates, representatives, promoters, independent business operators, or any of a dozen other titles.

In an MLM company, a non-salaried direct seller distributor is an independent contractor who can potentially obtain revenue from two sources. The first source is direct compensation based on his or her personal sales of products or services to retail customers. The second revenue source consists of indirect commissions based on the sales made by other direct sellers who have been recruited by the distributor. (These recruited distributors are referred to as downline distributors.) This business structure encourages distributors to not only sell directly to customers, but to also actively recruit other distributors to join the company. Depending on the company, a distributor in an MLM company could receive secondary- and even tertiary-level indirect commissions based on the sales of products or services generated by his or her downline recruits. Technically, then, multi-level marketing is most accurately termed a compensation structure (e.g., Coughlan & Grayson, 1998). Collectively, in a multi-level marketing company, downline distributor networks can resemble the structure of a pyramid and, as a consequence, multi-level marketing is sometimes unfortunately tarred as an illegal pyramid scheme (e.g., Bosley & McKeage, 2015; Vander Nat & Keep, 2002).

The first company alleged to truly utilize the idea of multi-level marketing at scale was Nutrilite, a vitamin and supplement company founded by Dr. Carl Rehnborg in 1934. Rehnborg was approached by an existing customer who offered to help him find and train salespeople in exchange for a percentage of corporate revenue.¹ The basic insight underlying an MLM company is that the best people to sell the products or services of a company are the customers of the company that use the products or services. The founders of Amway, perhaps the best-known MLM company, Rich DeVos and Jay Van Andel, were Nutrilite distributors in the late 1940s before starting their company in 1959 and taking with them the principles of multi-level marketing. Amway would go on to acquire all of Nutrilite and by 2019, Amway's revenue was in excess of \$8.4 billion. In addition to Amway, other well-known MLM companies include Herbalife, Mary Kay, and USANA.

The Direct Selling Association (DSA), the direct selling trade association, tracks and reports the growth of multi-level marketing among its member companies in the United States. In the early 1990s, only 25 percent of direct selling companies were using a multi-level marketing compensation structure for their business. Currently, more than 95 percent of DSA members are using a multi-level marketing compensation structure in their business strategy.

In part because of their apparent pyramid structure, MLM companies have attracted a plethora of negative perceptions and criticism regarding unethical behavior and the questionable legality of their business strategy per se. These criticisms often focus on top-line distributors (i.e., distributors with large downlines of distributors) telling stories of how their MLM business has set them free and made them rich. See, for example, academic criticisms offered by Groß and Vriens (2019), Keep and Vander Nat (2014), Muncy (2004), and Schiffauer (2018).

Besides academic criticisms, MLM companies have been in the news because of several alleged business practices. Allegations against MLM distributors have included such claims as

¹ https://www.mlive.com/business/west-michigan/2014/10/78-year-old_nutrilite_lab_rat.html

collusion and racketeering. MLM companies have been accused of preferential compensation arrangements for high performing distributors and price fixing of products and services being sold by distributors.² For example, in 2019, AdvoCare paid \$150 million to the Federal Trade Commission (FTC) to settle charges that the company was operating as an illegal pyramid scheme.³ Young Living Essential Oils was sued in 2019 under the Racketeer Influenced and Corrupt Organizations (RICO) Act with allegations that the company was engaged in a pattern of illegal activities connected to an ongoing enterprise.⁴ Some MLM companies are alleged to have an initial investment cost for products that is unreasonably high and often includes reoccurring monthly charges.⁵ In early 2020, the FTC sent letters to six MLM companies to address claims that their distributors were making about the potential health benefits of products offered and the potential income that could be obtained.⁶

Purpose of the Research

Despite the negative impressions of multi-level marketing that exist and are fomented in mainstream and social media, no information exists about what the *American public* actually thinks about multi-level marketing or MLM companies in general. However, it seems paradoxical that, in spite of the mainstream and social media negativity, according to the DSA website (dsa.org), more than 7 million Americans are either full-time or part-time active multi-level marketing distributors, and these distributors serve more than 42 million customers annually. Thus, the purpose of the present research was to empirically and objectively explore the public's familiarity with, and perceptions of, multi-level marketing. Although small-scale studies of the public's perceptions of *direct selling* were conducted in Sydney and Melbourne, Australia (Kustin & Jones, 1995) and *multi-level marketing* in Pune, India (Joshi, 2014), to the authors' knowledge, no published study of the public's perceptions of multi-level marketing (or even direct selling in general) has been conducted in the United States since 1989 (Peterson, Albaum, & Ridgway, 1989).

The Study

To determine the public's perception of multi-level marketing in the United States, a national sample of the general public was surveyed in October 2021. The survey data were collected online using a large consumer panel. Because familiarity with and perceptions of multi-level marketing without a comparison basis would be difficult to interpret, to facilitate an understanding of multi-level marketing, familiarity with and perceptions of two related terms were simultaneously measured: direct selling and social selling.

The term direct selling is the most general description of the type of selling activity represented by the three terms. Multi-level marketing is a specific manifestation (i.e., subset) of

² See, for example, <https://consumer.ftc.gov/articles/multi-level-marketing-businesses-pyramid-schemes>

³ <https://www.ftc.gov/news-events/news/press-releases/2019/10/multi-level-marketer-advocare-will-pay-150-million-settle-ftc-charges-it-operated-illegal-pyramid>

⁴ *O'Shaughnessy v. Young Living Essential Oils, LC*, Case No. 1:19-CV-412-LY (W.D. Tex. Oct. 18, 2019)

⁵ <https://www.titlemax.com/discovery-center/lifestyle/the-top-25-mlms-by-revenue/>

⁶ <https://www.ftc.gov/news-events/news/press-releases/2020/04/ftc-sends-warning-letters-multi-level-marketers-regarding-health-earnings-claims-they-or-their>

direct selling. Social selling is a relatively new term used by some direct selling companies to avoid the negative connotation of multi-level marketing and hopefully more accurately describe the practice of using social media networks to sell products and services. Although the article focuses on the perceptions of the public regarding multi-level marketing, results are also provided for the terms direct selling and social selling to provide an interpretive context.

Research Methodology

A random sample of members of a large online consumer panel (Dynata) was initially screened and qualified using several questions built into the survey. Potential respondents were included in the survey if they were 18 years of age or older, resided in the United States, agreed to follow a specific set of instructions, and were able to correctly identify an image displayed on their electronic device. Respondents were allowed to complete the survey using desktop computers, laptop computers, tablet computers, and cell phones. A total of 1,534 individuals was qualified and participated in the survey. Fifty-three percent of the respondents were males, 39 percent were 18-34 years of age, 33 percent were 35-54 years of age, and 28 percent were 55 years of age or older.⁷ The respondents resided in forty-nine states and the District of Columbia.

For the survey, an online split-ballot (i.e., experiment) protocol was employed to obtain answers to the pertinent research questions. After respondents were qualified, they were randomly assigned to one of three independent treatment conditions. In one treatment, survey respondents were exposed to the term multi-level marketing. In a second treatment, survey respondents were exposed to the term direct selling. In a third treatment, survey respondents were exposed to the term social selling.

In each of the three treatments, survey respondents were told that, “We are now going to ask you some questions about [respectively Multi-level Marketing/Direct Selling/Social Selling].” They were then asked a closed-end question concerning their familiarity with their assigned term [multi-level marketing/direct selling/social selling]. The question was asked using a four-category scale: “On a scale of being very familiar to not being familiar at all, how familiar are you with the term [Multi-level Marketing/ Direct Selling/Social Selling]?” The response categories were “Very Familiar,” “Familiar,” “Unfamiliar,” and “Not familiar at all.” Survey respondents who answered the question by stating they were either “Very Familiar” or “Familiar” were then asked a question regarding their perception of their assigned term. The perception question was, “On a scale of being very positive to being very negative, what is your impression of [respectively Multi-level Marketing Direct Selling/Social Selling]?” Response categories were presented using a five-category scale with the options being “Very Positive,” “Positive,” “Neutral,” “Negative,” and “Very Negative.”

Survey respondents who indicated that they were either “Unfamiliar” or “Not familiar at all” with their assigned term when asked the familiarity question were presented with the following description of their assigned term and then asked the (identical) perception question:

⁷ Although the sample characteristics were not identical to census parameters (e.g., 53 percent of the sample consisted of males, whereas 49 percent of the United States population 18 years of age or older are males; 33 percent of the sample and the population fall in the same 35-54 age bracket), it was determined that sample data weighting was not necessary.

[respectively Multi-level Marketing/ Direct Selling/Social Selling] is the marketing of products and services directly to consumers through an independent, entrepreneurial sales force. These products and services are sold primarily to the consumer either through person-to-person or via group events. Orders can be placed in-person, online, or by phone. Depending on the company, the salespeople may be called distributors, representatives, consultants, or various other titles. Companies market all types of products and services, including jewelry, cookware, nutritionals, cosmetics, housewares, energy, insurance and much more.

Results

Table 1 contains the percentages of respondents who reported their familiarity or lack of familiarity with the three study terms. The table also includes the mean responses to each term as well as the number of respondents exposed to the term. Note that although survey respondents were randomly assigned to each study term (treatment condition), the final subsample sizes differ a bit due to terminations, uncompleted questionnaires, and so forth.

Table 1: Familiarity with Terms “Multi-level Marketing,” “Direct Selling,” and “Social Selling”

Familiarity	Multi-level Marketing	Direct Selling	Social Selling
Very Familiar	18.4%	21.9%	19.4%
Familiar	30.1%	38.2%	25.9%
Unfamiliar	31.9%	28.1%	29.0%
Not Familiar at All	19.6%	11.8%	25.7%
Mean ¹	2.5	2.7	2.4
N	489	566	479

¹ The larger the mean, the more familiar a term was reported to be.

The table reveals that survey respondents were relatively more familiar with the term direct selling than with multi-level marketing and social selling. In particular, 60 percent of the respondents reported being familiar with direct selling, 49 percent reported being familiar with multi-level marketing, and 45 percent reported being familiar with social selling. These results were anticipated based on the vernacular usage of the term direct selling and the relative novelty of the term social selling. Surprisingly, the percentage difference in familiarity for the terms multi-level marketing and social selling was not as extensive as the percentage difference for direct selling and multi-level marketing or direct selling and social selling. In general, respondents reported being significantly more familiar with direct selling than either multi-level marketing or social selling.

Across the three terms, male respondents reported being more familiar with the terms than did female respondents. Fifty-eight percent of the male respondents reported that they were either “Very Familiar” or “Familiar” with their assigned study term, whereas female respondents reported a general familiarity level of 45 percent. This result was a bit surprising since, according to the DSA, more than three-quarters of active direct sellers are women, and consequently it was expected that women would be more familiar with the terms than men would be.

Table 2 displays perceptions of the three terms for, respectively, respondents who reported being familiar or not familiar with their assigned study term. The table shows percentage responses and means for the rating scales utilized as well as the size of each subsample.

Table 2. Perceptions of Terms “Multi-level Marketing,” “Direct Selling,” and Social Selling”

	Multi-level Marketing	
Perception	Respondents Familiar	Respondents Not Familiar
Very Positive	25.3%	6.0%
Positive	29.1%	19.8%
Neutral	27.0%	61.9%
Negative	11.4%	8.3%
Very Negative	7.2%	4.0%
Mean ¹	3.5	3.2
N	237	252

	Direct Selling	
Perception	Respondents Familiar	Respondents Not Familiar
Very Positive	22.4%	8.0%
Positive	37.3%	25.2%
Neutral	32.4%	58.4%
Negative	4.7%	4.4%
Very Negative	3.2%	4.0%
Mean ¹	3.7	3.3
N	340	226

	Social Selling	
Perception	Respondents Familiar	Respondents Not Familiar
Very Positive	31.8%	5.7%
Positive	39.2%	17.2%
Neutral	23.0%	59.5%
Negative	3.2%	10.7%
Very Negative	2.8%	6.9%
Mean ¹	3.9	3.0
N	217	262

¹The larger the mean, the more positive the perception of the term.

Table 3 below summarizes the percentage responses in Table 2. This table was created by collapsing the positive and negative responses in Table 2. Although the percentage responses are somewhat nuanced, several relationships are apparent. In general, Table 3 demonstrates that the perceptions of the three terms are both a function of the term itself as well as (reported) familiarity with the term.

Table 3. Summary Perception Percentages for Respondents Familiar and Not Familiar with Study Terms

	Multi-level Marketing	
Perception	Familiar	Not Familiar
Positive	54.4%	25.8%
Neutral	27.0%	61.9%
Negative	18.6%	12.3%

	Direct Selling	
Perception	Familiar	Not Familiar
Positive	59.7%	33.2%
Neutral	32.4%	58.4%
Negative	7.9%	8.4%

	Social Selling	
Perception	Familiar	Not Familiar
Positive	71.0%	22.9%
Neutral	23.0%	59.5%
Negative	6.0%	17.6%

Several observations emerge from a joint analysis of the familiarity and perception data. First, it is noteworthy that among respondents reporting they were familiar with a term, a majority perceived that term positively. Specifically, positive perceptions ranged from 54 percent for multi-level marketing to 71 percent for social selling. Second, in spite of these positive perceptions, it is apparent that, with one relatively minor exception, multi-level marketing was perceived the least positively of the three terms. Third, it is apparent that respondents stating they were familiar with their assigned term were more positively disposed toward it than were respondents stating they were not familiar with their assigned term. This was especially true for social selling. Social selling was perceived significantly more positively than either multi-level marketing or direct selling by respondents who stated they were familiar with the term.

However, among respondents who stated they were not familiar with their study term and then read a description of it and asked their impression, social selling was perceived the least positively of the three terms. To wit, whereas 71 percent of the respondents exposed to the term social selling who stated they were familiar with the term indicated they were positively disposed to it, only 23 percent of the respondents who stated they were not familiar with the term were positively disposed toward it after reading a description of it.

Fourth, consistent with the difference in perceptions as a function of familiarity, a majority of the respondents stating they were unfamiliar with their assigned term reported “neutral

perceptions” once they had read a description of the term. In particular, on average about 60 percent of the respondents reporting they were not familiar with their assigned term possessed a neutral perception of that term after reading a description of it.

Fifth, there were differences in perceptions as a function of gender and age. As mentioned previously, across the three terms, male respondents were significantly more positively disposed toward them (51 percent positive perceptions on average) than were female respondents (37 percent positive perceptions on average), regardless of familiarity. Also, respondents 55 years of age or older were significantly less positively disposed toward each of the three terms studied than were younger age groups. In particular, ignoring familiarity with the terms, on average 27 percent of the respondents 55 years of age or older were positively disposed toward the three terms, whereas 51 percent of the respondents 18 to 54 years of age were positively disposed toward the three terms.

Finally, there was a significant relationship ($p < .05$) between familiarity and perception for each of the three terms: the greater the reported familiarity, the more positive the perception. For multi-level marketing, the correlation between familiarity and perception was .27; for direct selling, the correlation was .35; and for social selling, the correlation was .54, with the latter relationship reflecting 29 percent shared variance between familiarity and perception.

Discussion and Conclusion

The present research measured the American public’s general (i.e., top-of-mind) familiarity with, and perceptions of, multi-level marketing and two related terms, direct selling and social selling. As such, the research was the first known attempt to measure the familiarity and perceptions of the three terms empirically and objectively in the United States using a relatively large national sample of consumers.

The major inferences to be drawn from the research are straightforward. As a term, multi-level marketing is generally perceived less positively than the more generic term, direct selling, or the more ambiguous term, social selling. Given the negative views and treatment multi-level marketing has received in mainstream and social media, and the associated misinformation about it (e.g., Albaum & Peterson, 2011), this finding was not surprising, even though multi-level marketing has been shown to offer certain benefits to the 7+ million active multi-level marketing distributors (Peterson, Crittenden, & Albaum, 2019).

However, this general observation must be qualified by the more nuanced research findings. A majority of the survey respondents stating they were familiar with the three terms did in fact perceive them positively. At the same time though, when survey respondents who stated they were not familiar with the three terms read an identical description of the terms, positive perceptions decreased markedly, with majorities of these unfamiliar respondents espousing a neutral perception.

Moreover, the perceptions of respondents exposed to social selling who stated they were familiar with the term were significantly more positive than were the perceptions of respondents who respectively said they were familiar with the other two terms as well as those respondents exposed to the social selling term who stated they were not familiar with that term. The specific percentages for social selling as a function of familiarity, 71 percent for those respondents reporting familiarity versus 23 percent for those respondents stating they were unfamiliar, leads to

the speculation that respondent “familiarity” was perhaps misplaced for social selling. When initially exposed to the term social selling, survey respondents perhaps tended to associate it with something other than what was represented by its [direct selling] description (e.g., some aspect of social media). More detailed research is needed to explore this possible interpretation of the term by the public, and companies that are either using the term social selling or considering its use probably need to be cognizant of its perception and even rethink their decision.

Similar observations can be made about the other two terms studied: respondents stating they were familiar with the terms possessed more positive perceptions than those stating they were not familiar with them. This suggests that multi-level marketing companies and even the various direct selling associations need to consider an educational campaign to better familiarize consumers and regulatory agencies about multi-level marketing and even, perhaps, direct selling.

The “bottom line” of this research, so to speak, is that public perceptions of multi-level marketing (and direct selling) are a function of familiarity with the term as well as the underlying demographic characteristics of the perceiving public. The greater the familiarity, the more positive the perception. Males appear to perceive multi-level marketing (and direct selling) more positively than females, an interesting finding given that more than three-quarters of multi-level marketing distributors are females. And consumers under the age of 55 appear to perceive multi-level marketing (and direct selling) more positively than consumers 55 years of age or older. With respect to consumers 55 year of age or older, this may be due to either earlier experiences with multi-level marketing companies or simply the opportunity for more exposure to negative reports of, or misinformation about, multi-level marketing. Again, more research is required to better understand the relationship between age and perceptions.

In a recent article on multi-level marketing that investigated the relationship between losses incurred by distributors of one such company and a variety of demographic variables, Backman and Hanspal (2022) wrote that:

Despite lawsuits brought by the FTC against MLMs, reports about low earnings, and the negative press that the industry has received in recent years, millions of Americans continue to sign up. Understanding why individuals continue to participate is therefore of interest to regulators and the industry as a whole.

The current research documents that not all Americans perceive multi-level marketing with the same lens that critics do. Specifically, the public’s relatively positive perception of multi-level marketing appears to contradict the negative perceptions reported in the mass media or on social media. Even so, the current research indicates that multi-level marketing, a particular manifestation of direct selling, is less familiar and less positively perceived than is (generic) direct selling. Finally, the current research suggests that any investigation and analysis of the public’s perceptions of the terms studied should incorporate familiarity and demographic characteristics as moderators of those perceptions.

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