Editorial introduction

Although multi-level marketing (MLM) businesses have been around for decades, little is known about the kinds of people who choose to become involved as salespeople or their experiences. There is often little transparency around the remuneration of MLM salespeople and ongoing concerns that some MLMs engage in unethical recruitment practices. This briefing paper considers the demographic and psychographic characteristics, financial literacy and knowledge and previous selling and business experience of Australian MLM consultants.

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This research was funded by an Ecstra Foundation grant. The full report and supporting animated videos and educational collateral are available at: https://research.qut.edu.au/centre-for-decent-work-and-industry/projects/mlm/

If you are interested in testing your own financial literacy against the questions asked of the sample of MLM consultants visit https://qutc.sydney.qualtrics.com/jfe/form/SV_cUuwCVysxvaT7U

If you are considering joining an MLM, visit the MLM Informed Choices YouTube channel to learn how to make an informed decision: https://www.youtube.com/channel/UCfdNqtrmqM7oQXeqqPAP2eg

Developing a profile of multi-level marketing consultants in Australia to support informed decisions to join

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Introduction

Multi-level marketing (MLM)—also known as direct selling, referral selling or network marketing—focuses on selling products through personal networks and recruiting other salespeople (often referred to as consultants) into the business (Herbig & Yelkurk, 1997). When billed as entrepreneurial self-employment, potential consultants are attracted to MLM business opportunities to supplement their incomes and/or manage the dual roles of earning an income and meeting caring and domestic responsibilities. However, while MLM promises financial independence and work–life balance, there are mixed reports regarding its effectiveness. Indeed, despite the success of MLM as a business model, it has been reported in the United States that fewer than 1% of MLM consultants make any profit and that compensation schemes are exaggerated and unachievable for most consultants (Taylor, 2011). Further, MLM has been criticised for unethical recruitment practices (Punti & King, 2013).

Despite having more than a AU$1.4 billion annual turnover and an estimated half-a-million independent salespersons/consultants in Australia alone (Direct Selling Australia [DSA], n.d.a), much of the research on the characteristics and experiences of MLM consultants is anecdotal, with little focus on the financial literacy and knowledge of MLM consultants.

This briefing paper explores the characteristics of people who choose to become MLM consultants in Australia. Based on an analysis of their demographic and psychographic characteristics, financial literacy and knowledge, distinct profiles of typical MLM consultants are identified (Grant-Smith et al., 2021). These are then linked to proposed approaches for facilitating an individual’s capacity to make an informed decision to engage in an MLM venture and reduce their vulnerability to exploitation.

What do we know about multi-level marketing in Australia?

The variety of MLM companies operating in Australia is highly diversified. In terms of market share, current major MLM businesses include the recent entrant Thermomix (6.5%), and more established MLM companies such as Tupperware (4.3%) and Amway (3.3%) (Allday, 2018). The majority of MLM businesses registered with Direct Selling Australia focus on female consumers and consultants, selling a wide range of products including homewares and cooking...
appliances, craft supplies, and health, beauty and fashion products. It should be noted that not all MLMs are registered with DSA and many operate independently.

Under the Australian Consumer Law, legal MLM enterprises are not pyramid schemes because consultant income is predominantly derived from selling products or services, rather than recruiting others into a scheme. Although the detailed business model and commission structure of each MLM company differ, consultants do not receive a salary and typically rely on a complex calculation of commissions from their sales, alongside the sales of consultants they have recruited. Typically, a portion of the commission from their sales is also dispersed to the consultant who recruited them into the business and so on up the line. Most MLMs require consultants to purchase starter packs to join, and meet minimum sales targets to stay in the company.

MLM is an overwhelmingly female-dominated industry (Sullivan & Delaney, 2017). It has been estimated that between 77% and 95% of MLM consultants are women (DSA, n.d.b). Further, D’Antonio, (2019) claims that the MLM business model is dependent on exploiting female social circles. The common promise of many MLM ventures, of balance between paid work and family responsibilities, indicates there may be a high proportion of parents involved (de Casanova, 2011; Stanger, 2008).

There is also evidence to suggest that youth may be specifically targeted (Hardon et al., 2019). This could be related to the generally low barriers to entry and because joining does not usually require any prior training or experience (Schiffauer, 2018).

The primary recruitment approach used by MLM companies is linked to interpersonal influence, with consultants recruited by colleagues, friends or family members (Bosley & McKeage, 2015; Weieter, 2001), and potential recruits can find it difficult to refuse to join when being solicited by someone with whom they share a close relationship (Schiffauer, 2018). Further, the high levels of trust implicit in such relationships can reduce scepticism and generate feelings of obligation or allegiance (Bosley & McKeage, 2015).

Building a profile of multi-level marketing consultants

While it can be difficult to access accurate and complete information about MLM business opportunities, individuals with higher levels of financial literacy may be more likely to make informed decisions about joining and less likely to be influenced by personal factors.

Prospective consultants can be educated to identify and critically evaluate the recruitment tactics of MLM companies and respond to these in an informed way (Cialdini, 2001). Targeted information programs regarding earning expectations in MLM can influence decisions to participate and have positive knock-on effects for others in that individual’s social network (Bosley & McKeage, 2015). However, there is limited information available about the characteristics of MLM consultants to inform such education initiatives.

In late 2019, the authors administered a survey to address this lacuna using a Qualtrics panel. The sample of current and former MLM consultants (N=287) consisted of 59.9% females and 39.7% males (0.3% of respondents preferred not to answer). The most commonly reported age bracket in the MLM sample was 25 to 34.

Questions were based on a review of MLM and financial literacy literature, and a similar study conducted with a United States sample (DeLiema et al., 2018).

Latent profile analysis, an advanced multivariate statistical technique, was used to identify potential subpopulations based on different configurations of variables. Among the current or former members of MLM firms, we found different profiles (i.e., configurations) of financial literacy and perceived financial knowledge and investigated the substantive differences among them. Four unique profiles were identified which were distinguishable across several dimensions: demographic and psychographic factors, MLM involvement and experiences, and financial literacy. As shown in Figure 1, the four profiles were labelled ‘Self-Aware Inquirers’, ‘Aspirational Devotees’, ‘Prudent Evaluators’, and ‘Trusting Self-Doubters’. Full methodological details are included in the report (Grant-Smith et al., 2021).

The Trusting Self-Doubter profile included 39% percent of respondents. Members of this profile are typically financially literate but lack confidence in their financial knowledge. They tend not to seek out information before joining an MLM. Despite this, they may be receptive to receiving financial information about MLM because they incorrectly perceive that their financial literacy is low. This profile can be reached by providing information confirming their financial knowledge is adequate to build their decision-making confidence both before deciding to join and when deciding to remain with the MLM company.

The Self-Aware Inquirer profile included 27% of respondents. This profile was the most female-dominated with 70% of members identifying as female. Although members of this profile have lower financial literacy, their realistic assessments of their knowledge, and their comfort in seeking information, mean they are likely to be receptive
to financial literacy information about MLM. This profile can be reached by providing financial literacy information in an easily applicable format for their circumstances. Because Self-Aware Inquirers are the youngest profile, it is recommended that social media platforms be used to provide this information.

The Prudent Evaluator profile included 16% of respondents. Members of this profile typically possess high levels of financial literacy and confidence in their financial decision-making. They generally conduct research and seek financial advice before joining an MLM company. Because they will likely seek information, it needs to be easily found via web searches. This profile can be reached by providing information about MLM businesses in an accessible, online format to increase access at the time of decision-making.

Facilitating informed choice to participate in a multi-level marketing company
Based on these results, several short animated videos were prepared to provide financial advice and assist future prospective members who fit these profiles to make informed decisions to join MLM companies. They may also support existing MLM consultants to make more well-informed financial decisions about their MLM businesses. These videos are hosted on the YouTube channel MLM Informed Choices.

The need for a targeted strategy to reach some profiles
The Aspirational Devotee profile, comprising 18% of respondents, was distinctly different to the others across multiple dimensions. Members of this profile are potentially more vulnerable to exploitation or venture failure than other profiles.

This is because they are typically overly optimistic about both the likelihood of success in MLM opportunities and their own financial knowledge. This profile also differed from other profiles in several psychographic measures that are likely to influence their decision-making. Compared to other MLM profiles, this profile scored highest in measures of impulsivity (the inability to act with forethought and restraint), social status orientation (concern for one’s place in the socio-economic structure), internal locus of control (the degree to which individuals believe future outcomes can be controlled by their present actions), and materialism (placing high value on possessions, wealth and image).

Members of this profile typically invest the highest amounts of time and money in their MLM ventures which can make them vulnerable given the overestimation of their skills. Indeed, more than half the members of this profile self-reported spending up to AU$25,000 on start-up costs for their first MLM business, compared to averages of less than AU$5,000 spent by other profiles. Members of this profile are also the most likely to have worked for multiple MLM companies.

Members of the Aspirational Devotee profile reported both the highest self-calculated profits and losses of all profiles. However, the accuracy of this profile’s self-reported profits and losses can be questioned given their low understanding of a range of key financial concepts, including compound interest, inflation, and calculating profits. This has implications for their understanding of important considerations for MLM businesses, including return on investment, interest on debt and their ability to evaluate the profitability of their business correctly.
As a result of the disconnect between their actual and perceived levels of financial knowledge, Aspirational Devotees may not be receptive to financial literacy information about MLM because they perceive that they do not require it despite having lower than average financial literacy. Further targeted research is needed to develop a strategy for influencing this hard-to-reach and potentially vulnerable and resistant profile.

Conclusion
The Australian consumer law legislates against operating pyramid schemes where participants make money through recruitment activities rather than selling legitimate products or services; participation can attract criminal and civil penalties. While legal MLM enterprises are not pyramid schemes, as with any business venture, the onus is on prospective MLM consultants to exercise caution before joining to ensure they understand the operating model, ongoing costs, likely financial returns and effort and time commitments required to succeed. Unfortunately, the personal characteristics of those MLM consultants with the most to lose suggest that they may also be the hardest to reach. It is possible that improving the financial literacy and information-seeking behaviours of prospective consultants may have flow-on effects on the practices of MLM companies, resulting in the provision of more transparent and comprehensive information prior to joining.

References

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