

## Debate

# The Network Marketing Controversy

*ISSUE: Is network marketing a legitimate business model that offers a chance to earn viable income or achieve personal goals?*

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Network marketing (also called multilevel marketing) is a distribution method in direct selling wherein distributors earn income from their own sales of products and commissions from sales made by individuals they have recruited. No rewards are given simply for recruiting another distributor. Network marketing involves internal consumption, which is the purchasing of products at a discount from the firm for the distributors' own use.

While network marketing is legal because a legitimate product is sold, it is also controversial. Some believe that network marketing resembles illegal pyramid schemes. These occur when there is no product to sell or when the product has no market value. Distributors pay a fee when "recruited," generating money for the scheme. The scheme collapses when distributors cannot recruit anyone else. Therefore, those at the top benefit while newer distributors lose out. One of the big differences between network marketing and pyramid schemes is that while pyramid schemes pay simply for recruiting, network marketing allows distributors to receive commissions based on *actual* sales that their new recruits have made.

The three largest network marketing direct sellers in the United States are Avon, Amway, and Herbalife. All of them engage in network marketing. Avon operates by having their distributors sell products to end customers with the option of recruiting others. Distributors make money off the sales from their own customers as well as from a percentage of the sales from their recruits. There is no incentive attached to simply making recruits, and it is not required to buy products for one's own personal use. Avon products are sold directly to end customers.

Amway, which sells health, beauty, and home care products, also gives people a commission on their sales and that of their recruits. It encourages distributors to engage in internal consumption, sell products to their recruits, go to marketing meetings, and buy other costly business materials. One argument against Amway products is that they are significantly marked up for sale to the end customer, making them unattractive to a lot of people. Some people have accused Amway of noncompetitive pricing, while Amway defenders claim that the prices reflect the quality of their products. It is notable that Amway is the second largest direct seller in the world, which would not likely occur if it has a non-sustainable direct selling model.

Herbalife, a direct seller of sells nutritional supplements and weight-management and personal-care products, requires its distributors to purchase products for their own use. Distributors can make commissions by selling to end consumers as well as commissions from the sales of those they recruit. While the firm has been highly successful, hedge fund manager William Ackman has accused Herbalife of being a pyramid scheme. Among his accusations is the fact that Herbalife allegedly pays distributors 10 times more for recruiting other distributors than selling products, the top 1 percent of distributors earns the majority of money, and Herbalife distributors have a higher failure rate than similar firms. Herbalife strongly denies these accusations.

Critics of network marketing argue that distributors make more money from the sales of those they recruit than from selling products and that to succeed in the industry distributors must constantly recruit new distributors. While this industry is flexible, it can be hard to succeed due to the need to maintain strong customer relationships, maintain a large network of prospects, and engage in recruiting. Another criticism is that commission rates are low, although this will often vary depending upon the company and the distributor's performance. Often those that succeed make a significant amount of income from selling products and having a large network of recruits. Some former distributors have criticized the industry because they spent a large amount of money on internal consumption but were not able to succeed in the industry.

On the other hand, many people enter the industry to purchase products and are not trying to earn a regular income. These people become distributors because they enjoy using the product, are offered discounts on purchases, and enjoy the social interaction. Supporters of network marketing firms such as Avon, Amway, Herbalife, and Mary Kay point out that these firms provide a large amount of training and incentives for reaching certain goals. Perhaps the biggest benefits for distributors are the opportunity to start their own businesses and make their own hours. And although network marketing has been heavily criticized, the government has ruled that it is a legitimate model that offers valid ways for distributors to earn income.

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*There are two sides to every issue:*

1. *Network marketing is a legitimate business model that can allow distributors to become successful entrepreneurs or satisfy their personal goal.*
  2. *Although it is legal, network marketing's high failure rate and constant need for recruitment makes this a questionable and controversial business model.*
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