Multilevel (network) marketing: An objective view

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Multilevel marketing (MLM) is a retail channel of distribution that has a negative image in the minds of many individuals and is under increasing scrutiny by government regulatory agencies around the globe. It is frequently alleged that multilevel marketing companies may be illegal pyramid schemes, and that such companies are unethical. One major concern being raised increasingly is the extent of so-called internal consumption. This paper addresses those characteristics of multilevel marketing that are under attack and argues from an objective, not emotional, perspective that claims that MLM organisations are inherently pyramid schemes and unethical are misplaced.

Keywords Multilevel marketing, Direct selling, Internal consumption, Pyramid schemes, Ethics

Introduction

It is known by different names: multilevel marketing (MLM), network marketing (NM), and network marketing direct selling organisation (NM DS). Regardless of what it is called, MLM (the label preferred here) is a much maligned form of the direct selling retail channel of distribution. MLM companies are being continually scrutinised by government regulatory agencies in the European Union, the United States, and the People's Republic of China. The claim is made that MLM companies, the MLM retailing channel of distribution generally, and the specific method of compensation of distributors, are illegal pyramid schemes.

Increasingly, one potential indicator of pyramiding that is being suggested by government agencies in the European Union and the United States is the extent of *internal consumption,* which is defined by Peterson and Albaum (2007, p. 317) as the practice of an employee or other type of company representative purchasing products or services at a discount from list or regular market price from his or her employer (or other principal) for his or her own use or consumption.

Critics of multilevel marketing go beyond the legality issue and argue that it is an unethical way of doing business per se. One vocal critic of MLM

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has gone so far as to claim that 99.94 percent of the participants in MLM firms lose money (Taylor, 2005). Hyman (2008, p. 14) cites examples of "*average*" distributors in the United States having an earning potential of less than US$1,000. In contrast, Seale, (2007, p. 22) points out that research by the United States Direct Selling Association indicates that the mean gross income is about US$14,500, and median income is US$2,500. Robinson (2006) claims that more than 50 percent of the participants in direct selling (and this includes those in MLM systems) report making money, whereas Muncy (2004) states that multilevel marketing represents a retailing industry that provides a useful economic and business function. As we shall show later, people become involved in MLM for various reasons, and this accounts for the relatively small average earnings.

To an extent, the issues surrounding the practice of multilevel marketing fit within the realm of what Madichie (2009) has called "*the gap between the marketing theory train and the marketing practice platform*". Marketing is viewed by Madichie (2009) as being at a crossroad that might require a redefinition as it is now taught as a discipline. In a similar manner, Corkindale (2009) questions eight core principles and practices of marketing for their relevance today.

The purpose of this paper is to present an objective view of multilevel marketing as a retailing channel of distribution, and its effect on distributors who also are consumers of products produced by the company they represent. In the remainder of this paper multilevel marketing is defined and discussed, its legality in terms of pyramid schemes is addressed, and the ethics of multilevel marketing are considered. To date, criticisms have not presented any empirical evidence to support their claims. The present paper is similar in that no quantitative empirical data are available. Rather, our comments are based on observation of the marketplace and as such constitute qualitative marketing research.

What is multilevel marketing?

Multilevel marketing (MLM) is a form of retail direct selling (i.e., face-to-face selling away from a fixed retail location) that by definition has a multilevel compensation structure. Direct selling, including MLM, is a particular retail channel of distribution wherein salespeople or distributors are in business for themselves and operating as independent contractors. These distributors sell to consumers, including themselves, and as such MLM is a form of consumer marketing.

How widely spread is direct selling? More than 20 years ago, Peterson, Albaum and Ridgway (1989) reported in their study in the United States that 57% of respondents had purchased a product or service from a direct selling company during the 12 months prior to data collection. More recently, Brodie et al., (2004, pp. 7-8) in their study of eight countries reported that the percentage of respondents indicating they had purchased from a direct selling company during the 12 months prior to data collection ranged from 25% in Finland to 72% in South Africa, with the mean average for the eight countries being 46%. It is clear that the "popularity" of the direct selling approach to retailing varies widely. In 2010 the Federation of European Direct Selling Associations (FEDSA) reported that retail sales of direct selling firms in European Union countries were €10.7 billion and the number of sales persons was 4.0 million (www.fedsa.be). In contrast, in the United States in 2009, retail sales by direct selling firms, including MLM firms, totaled US$28.3 billion (www.dsa.org/research) and there were 16.l million sales persons (distributors), of which 99.1 % worked less than 30 hours per week and 86.4% were female. Worldwide, global retail sales of direct selling companies in 2009 (the latest year for which these data are reported) totaled US$117.5 billion and the global sales force consisted of 74 million distributors (www.wfdsa.org/statistics). In 2009, more than 90 percent of direct selling companies in the United States were multilevel firms and they accounted for more than 90 percent of the retail sales revenues and almost all of the distributors. In 2004 (the latest year for which data are available), about 80 percent of direct selling companies globally were multilevel marketing companies (Ho, 2004, p. 56). This figure undoubtedly is greater now. Major direct selling product categories include personal care, home/family care, wellness, leisure/educational, and services. Many of the major companies are well known internationally, such as Amway, Avon, JAFRA Cosmetics, Herbalife, and Mary Kay Cosmetics.

Multilevel marketing is a way of distributing products or services in which distributors earn income from their own retail sales and from sales made by other direct and indirect recruits, that is, people they have recruited to sell, and people their recruits have recruited, into the direct selling organisation as distributors (Vander Nat & Keep, 2002, p. 140). Technically, multilevel marketing is not a type of marketing but rather is *a form of compensation* (emphasis added) in a direct sales company where the salesperson can earn money on his or her own personal retail sales and also on the sales of people he or she personally recruited into the business and on the sales of people recruited by their recruits (World Federation of Direct Selling Associations, 2011a, p. 1). A distributor's own sales include products consumed by the distributor himself or herself, that is, *internal consumption.* Thus, MLM companies are direct selling organisations that depend on personal selling, and that reward distributors (salespeople) for (1) buying products, (2) selling products, and (3) the purchases and sales made by individuals they recruited to become distributors (Coughlan & Grayson, 1998, p. 402). Although recruitment of others to join an MLM network is encouraged, *no rewards are given for the simple act of recruitment* (emphasis added). The only rewards from recruiting others come from the sales made, and the consumption by, those recruited (Berry, 1997, p. 76). True multilevel marketing involves the development of a *legitimate retail selling and distribution network* (emphasis added) that grows by social networks (Coughlan & Grayson, 1998, p. 425). Such organisations offer actual products and/or services and do not require distributors to take large financial risks (Salter, 1997, p. 5).

Although the MLM sales organisation results in various levels (i.e., downlines and uplines or more generally downstream and upstream), distributors can order products directly and receive commissions (bonuses) directly from the company. This is known as direct fulfillment, in contrast to indirect fulfillment, whereby so-called downline distributors have to work through their upline "leaders" for product ordering and delivery and for payment of bonuses earned. As in all forms of direct selling, MLM distributors purchase the products or services they sell or consume themselves from the

MLM company and then add a profit margin for sales made to consumers not in the MLM organisation.

Neil Offen, former president of the United States Direct Selling Association, has identified six distinct types of direct selling salespersons, including those working for MLM firms (cited in Roche, 1995, pp. 106-107):

1 *The career seller*. Direct selling for this distributor is his/her major source of income.
2 *Part-time permanent seller*. This distributor needs the income, but has only a limited amount of time available.
3 *Short-time objective seller*. This distributor has a specific objective in mind, such as earning enough money to buy a refrigerator. Such a person may be in and out of direct selling throughout the year.
4 *Socially conscious seller*. This distributor believes strongly in a product's value to society and wants to share it with others.
5 *Social contact seeker seller*. This distributor is in direct selling for the recognition that is given to people for their efforts.
6 *Internal consumption seller*. This distributor purchases a product or service at a discount for personal or family use.

The World Federation of Direct Selling Associations categorises direct selling salespersons in a similar manner. The various types of salespersons are based on individual motivations for joining and staying affiliated with a company. Individuals often are more than one type at a time and can move from one type to another depending on their individual and changeable motivations. Because of this, there are no data on the percentages of salespersons in each category. Understanding multilevel marketing requires an understanding of the types of direct selling distributors.

Whereas some distributors may be primarily internal consumption sellers, internal consumption typically is exhibited by all types of distributors. Indeed, as Luce (2006, p. 62) has pointed out, many prospective distributors want "*an outstanding product that they love so much that they buy it for themselves*". Employees and distributors who use their companies' products also can be more effective and believable spokespeople for the company. To illustrate, Jennifer Azzi, former university, Olympics, and women's professional basketball player in the United States, evolved from being a USANA (a nutritional supplement) user to endorser to distributor. She has said, *''I'm using the products and telling everyone to take them. It's something I believe in. If I'm doing all that, why wouldn't I be a distributor?" (Direct Selling News,* 2009, p. 8).

A typical MLM organisation's compensation system is somewhat complex. There are commissions paid on one's *personal retail sales volume* and on the so-called *group retail sales volume.* For a particular distributor, group sales volume is defined as the combined sum of all personal sales plus all of the sales generated by every person in the distributor's downline network. Each distributor's *net* commission rate on his or her downline's sales volume is the *difference* between the distributor's commission rate and the (lower) commission rate of his or her downline distributors. In most MLMs the commission rate increases as overall sales volume increases. For example, if the upline distributor's group sales volume is at a level where it earns a 10% commission rate and each downline distributor has sold at a level that earns a 5% commission rate, each downline distributor receives this 5% of his/her volume. The upline distributor receives the 10% commission rate for his/her personal volume plus 5% of the group volume (10%-5%). Coughlin and Grayson (1998, pp. 402-3) provide a detailed illustration of how commissions are generated and then distributed to the members of a network.

In addition to commissions, distributors receive income in the form of markups on their personal sales to consumers outside the MLM network. Thus, a distributor's income has three components: (1) commissions on personal sales, including those resulting from internal consumption; (2) commissions on group sales that involve any downlines; and (3) mark-ups on personal sales to consumers outside the network.

Two major perceptual issues face companies that engage in multilevel marketing. First and foremost is the perception that multilevel marketing per se is illegal pyramiding. Second, whether illegal or not, by its very nature multilevel marketing is perceived as consisting of unethical business practices. In the remainder of this paper each of these issues is addressed.

MLM and pyramid schemes

Hyman (2008, p. 14) alleges that "*basic economics and marketing reduce all MLM schemes to pyramid schemes*". The only "evidence" he cites to support his allegation are the same anecdotes used by other MLM critics. No empirical research data are provided as support.

A pyramid scheme is a fraudulent operation by which promoters of so-called "investment" or "trading" schemes enrich themselves in a geometric progression through the payments made by recruits to such schemes (World Federation of Direct Selling Associations, 2011b, p.1). Individuals who have been recruited into an organisation are compensated primarily for recruiting other individuals into the organisation rather than for making legitimate retail sales of a product or service to so-called "end consumers". Such recruitment provides rewards to recruiters that are unrelated to the sale of the product or service to ultimate consumers (Vander Nat & Keep, 2002, p. 141). Other characteristics of a pyramid scheme include the requirement to pay a substantial fee for joining the organisation, pressure on distributors to buy large amounts of inventory ("inventory loading"), and the absence of a policy regarding the buying back of unsold inventory, also known as buy-back (Ho, 2004, p. 6).

In a true pyramid scheme, profit is made by geometric progression - by the progression of the network itself - and not (or at least much less than) by the progression of sales to consumers outside the network, or even sales representing internal consumption. Hypothetically, as the pyramid grows, it becomes more difficult for distributors at lower levels to recruit others and get back their investment (Chalançon, 2002, p. 2). At the extreme there is no one left to recruit. Only a few profit, while the majority lose. But, in reality MLM companies typically limit the number of levels in the organisation such that the hypothetical extreme is never approached. For example, one direct selling company selling personal care products has six levels in its downline system. Another direct selling company, one selling nutritional supplements, has four levels in its downline system.

Pyramid schemes are readily identified because of the lack of a tangible product. The so-called "products" to be sold have no real market value. This is because the products often are "gimmicks" such as certificates, training programs, magazine subscriptions, illusory discounts, or "miracle" treatments (World Federation of Direct Selling Associations, 2011b, p.1). But, the simple fact is that, analogous to other retailers, legitimate MLM companies sell quality products and services to consumers.

Conceptually, the "test" for whether an MLM organisation is a pyramid scheme really is quite simple. According to Peterson and Albaum (2007), the traditional "pyramid test" for determining whether an MLM organisation is an illegal pyramid scheme is based on answers to four questions:

1 What is being sold - a product/service or the right to sell a product/service? This is the issue of "recruitment".
2 Is the fee for becoming a distributor fair and reasonable and what does a person receive for it from the company? This is the issue of "joining fee".
3 Is there pressure to purchase excessive inventory? This is the "inventory loading" issue.
4 Is there a provision for the MLM firm to buy back unsold inventory? This is the "buyback" issue.

There is no pyramid if a product/service is being sold, the fee for becoming a distributor is fair and reasonable, there is no inventory loading, and buyback is available (Albaum, 2008).

What complicates matters is the hierarchical reward systems that MLM companies have, as described above, which encourage recruitment, entrepreneurship, and sales. Another way of looking at the possible effects of such compensation systems has been suggested by Berry (1997, p. 55), who proposes three characteristics for a direct selling organisation (DSO) that apply as well to an MLM firm:

> *First, a DSO (and MLM) supplies products directly to participants who are personally attracted by the products, consider them to be good value for the money and are keen to use the products themselves. Second the DSO (and MLM) rewards participants for sharing their enthusiasm for the products with others who also wish to buy and use the products. Third, and this is the key difference between NM (network marketing or MLM) and any other DSO, the NM (MLM) rewards every participant for passing on their enthusiasm, both for the products and the business concept, by building and maintaining their own network of other participants, each with their own retail customers.*
>
> *Other equally successful NM DSOs (MLMs) can best be described by substituting for the first two ingredients in the above description, the following - A DSO (MLM) provides competitively priced products to participants together with a proven and easily replicable method of achieving retail sales.*

Thus, distributors not only work with their own customers, but they market the MLM organisation to potential recruits. A key ingredient may very well be the relationship between upline distributors who sponsor or recruit downline distributors and the downline distributors. In their study of sponsor socialisation communication activities, Sparks and Schenk (2006, p. 176) concluded that sponsors who train more effectively, who transmit more information about the MLM to their recruits, and who communicate regularly produce more productive MLM distributors. At the same time, however, the fact that distributors are independent contractors allows them to operate largely as they please. In an earlier study, Sparks and Schenk (2001) examined key leadership relationships and found that sponsors' so-called transformational leadership may be effective in bringing about greater effort, performance, and satisfaction from recruits. Transformational leaders are individuals who "transform" their followers through specific behaviours that inspire and motivate the followers to go beyond their own self-interests for the good of the group (Bass, 1990, p. 53).

According to Vander Nat and Keep (2002, p. 140) and Hyman (2008, p. 14), the MLM compensation system resembles certain pyramid schemes. This resemblance is superficial, however, since compensation is based only on retail sales made both inside and outside the MLM organisation. A marketing system that forms a pyramid shape is not by itself an indication of an illegal distribution system (Stockstill, 1985, p. 55). If it was, the prototypical manufacturer-wholesaler-retailer distribution channel could be viewed as illegal as it tends to approximate a pyramid shape, similar in appearance to the shape of an MLM organisation. Neither of these shapes is illegal per se.

Codes of ethics

In addition to government regulations, statutes, and case law that are used to determine whether a pyramid scheme exists, there is industry self-regulation through codes of ethics. The World Federation of Direct Selling Associations has had a World Code of Conduct for Direct Selling since 1994. All national DSA's are required to implement this code in their national codes (World Federation of Direct Selling Associations, 2011c, p. 2). The United States Direct Selling Association (DSA) Code of Ethics and the ethics codes of direct selling associations in other countries based on it, prohibits MLM companies that might be perceived as operating pyramid schemes from becoming members of the Direct Selling Association. This form of industry self-regulation appears to be effective. In an audit of the United States Direct Selling Association's Code of Ethics, Chonko, Wotruba, and Loe (2002, p. 94) reported that the direct selling corporate officers they surveyed believed that the ethics environment in member companies and in the industry as a whole was improving, and that some of this improvement likely was a result of the development and enforcement of the association's code of ethics.

Internationally, the MLM industry also has a code of ethics through the Multi-Level Marketing International Association (MLMIA), which is a professional trade association in which MLM companies, distributors (i.e., independent contractor salespersons), and companies that supply the MLM companies and distributors are members. The mission of MLMIA is to "*strengthen network marketing around the world*". Similar to the ethics code of the United States DSA, the MLMIA code states that corporate membership requires that "*A reasonable amount of products/services of the company are being purchased and consumed by persons not participating in the income opportunity of the company*" (www.mlmia.com/code.aspx). It is noteworthy that the code does not state that each distributor must sell to a specific number of "*outside consumers*".

A code of ethics by itself does not ensure that individual companies or distributors will abide by it. For example, Enron had a company code of ethics. But, adherence to an industry code, if such a code exists, is often required for membership in an industry trade association, and many advantages accrue to a company that is a member, not the least of which is that membership implies legitimacy.

Internal consumption

Related to the pyramid test is whether a (substantial) proportion of sales are made to consumers outside of the MLM network. This concerns the extent of internal consumption in an organisation. The existence of internal consumption is widespread throughout industry at all levels - manufacturer, wholesaler, and retailer. For example, in recent years major US automobile manufacturers ran national advertising campaigns based on the theme of consumers being able to purchase automobiles at employees' discount prices. For many companies, an employee discount is part of a "benefit package" offered to employees. Peterson and Albaum (2007) conducted a nationally representative survey of 400 households and found that 14 percent of the households had one or more members working for a company that offered a discount on its products or services to employees; all who were offered a discount took advantage of it. This 14 percent understates the true incidence as the sample included people working for the government or organisations or companies not involved in business-to-consumer marketing (e.g., defense contractors, construction companies). These researchers also conducted a study of 40 national retailers collectively employing more than 8 million individuals. Of these retailers, only three did not offer some type of discount to employees, while more than one-half offered the discount to employees' immediate family or friends.

As an example of internal consumption by a specific retailer, an electronics retailer in the United States has the following rule: cost +5% for employees. Manufacturers also give special deals to that retailer's employees in attempts to create internal consumption. There is a belief among the retailer's supervisors that the benefits of internal consumption are very important for employee loyalty as well as customer relations.

Retailing is typically defined as "*the set of business activities that add value to products and services sold to consumers for their personal or family use*" (Grewal & Levy, 2010, p. 488). Final consumers (or ultimate users) are "*individuals who buy goods and services for personal consumption*" (Armstrong & Kotler, 2005, p. 143). Internal consumption, which involves a transaction wherein a MLM distributor purchases for personal consumption, clearly fits within both of these widely accepted definitions. As long as a product or service (and not just the right to sell a product or service) is being sold, internal consumption should not be an issue for multilevel marketing organisations.

However, despite the intuition that internal consumption should be a non-issue, in multilevel marketing it remains contentious. On the one hand, United States and European Union government regulators are attempting to use internal consumption as prima facie evidence of a pyramid scheme. China already claims internal consumption is a per se violation of its anti-pyramiding statute (*China Daily,* 2005; *Direct Selling News Annual Review*, 2006, p. 58) On the other hand, the Code of Ethics of the United States Direct Selling Association states that:

> *… member companies shall remunerate direct sellers primarily on the basis of sales of products, including services, purchased by any person for actual use or consumption.* ***Such remuneration may include compensation based on sales to individual direct sellers for their own actual use or consumption*** (emphasis added).

Given the nature and extent of internal consumption, the position taken by the United States Direct Selling Association seems to be more palatable than that taken by the governmental agencies. An MLM distributor is an independent contractor who buys from an MLM company, then adds a profit margin on sales made to consumers not in the MLM network and/or personally consumes company products. Hence, from an MLM company’s perspective, a distributor can be both an end consumer and a sales person, just like a sales clerk who happens to be fortunate enough to buy at a discount from his or her employer. Also, as pointed out above, there are different types of direct selling salespersons and these types of salespersons have different motivations for joining and staying with a direct selling (including MLM) company.

Perceived ethicality of MLM

Apart from the issue of pyramid schemes, the perceived ethicality of multilevel marketing has been an issue for many years. Anecdotes abound about unethical MLM practices - selling under the pretext of a party, high-pressure selling to friends and relatives, inflated earning claims during recruiting, and so forth. In general, multilevel marketing appears to possess a negative public image. Indeed, a study by Peterson and Albaum (2007) of nearly 800 women in the United States found that the very term “multilevel marketing” was perceived significantly more negatively (i.e., was viewed as less ethical) than terms such as “direct selling” and “network marketing”.

It is important to separate what might be deemed the unethical activities of individual multilevel marketing firms or distributors (who are, again, by definition independent contractors) from multilevel marketing as a retail channel of distribution. Likewise, it is important to recognise that opinions and allegations regarding multilevel marketing are simply opinions and allegations. In this section of the paper the views of three critics of multilevel marketing are summarised briefly to illustrate common allegations regarding the lack of ethics in multilevel marketing.

Koehn (2001) is generally critical of multilevel marketing and has equated legal concerns with ethical concerns. Her position regarding pyramid schemes, for instance, is that they are illegal because they are unethical in two respects: (1) they are fraudulent and (2) they are recruitment-, not product-, centred businesses. Although certain of Koehn's contentions are persuasive at first blush, she offers no theoretical, logical, or empirical evidence to support them. Although technically a method of compensation, multilevel marketing is viewed as a retail channel of distribution and, as such, involves increasing the number of a firm's customers. MLM distributors who engage in internal consumption are end-consumers as well as salespersons. In brief, why is internal consumption an ethical matter? If ethics are viewed as a "... *philosophy of human conduct, with an emphasis on the determination of right and wrong*" (Ferrell, 2005, p. 4), then Koehn asserts it is wrong for a company to sell to its employees and representatives. Such an assertion is not supported and indeed is contrary to the standard business practices of a large number of companies.

Koehn is joined by Bloch (1996), who claims that multilevel marketing is unethical because MLM companies encourage distributors to sell products and services to family members and friends and/or to recruit them into the MLM organisation. It is not clear why he believes this activity constitutes unethical behaviour. If a selling or recruiting proposal is presented truthfully, then family and friends can still say "no, thank you" if they are not interested. No one is forcing anyone to do anything. If monetary expenditure is involved, personal obligations, or the feeling of such obligations, tend to dissolve.

Hyman (2008) offers much the same argument for unethical practices as do Koehn and Bloch. But, he goes further and argues that MLM schemes are unethical because they can abuse professional-client relations and they recruit new sales associates in socially and psychologically unacceptable ways, for example, propagating myths that anyone can be a good salesperson and make a lot of money. This assertion ignores the fact that people become involved in MLM for different reasons, and that not all necessarily want to make a lot of money. In addition, what Hyman asserts is not a characteristic of MLM as a retail channel of distribution. It would be more a characteristic of an individual company or distributor.

Multilevel marketing involves the development of social networks that evolve into business alliances (Lan, 2002; Ouyang & Grant, 2004; Pratt, 2000). DiMaggio and Louch (1998) argue that transacting with social contacts, such as relatives and friends, is effective because it embeds commercial exchange in a web of obligations and holds the seller's network hostage to appropriate role performance in the economic transaction. In an empirical study, they found that uncertainty about product and performance quality leads people to prefer sellers with whom they have noncommercial ties. The greater the risk in a transaction, the greater the likelihood that buyers will prefer dealing with sellers with whom they have social ties outside of the transaction (DiMaggio & Louch, 1998, p. 634). In brief, DiMaggio and Louch believe people trust more those who they know, especially those they know from a noncommercial relationship. Moreover, connections to work and non-work others are important to MLM organisation member commitments (Pratt & Rosa 2003, p. 413). This empirical research tends to counter the criticisms of Koehn, Bloch, and Hyman.

Other "evidence" cited as "proof" of multilevel marketing being unethical is the relatively high attrition rate of distributors (Bloch, 1996; Koehn, 2001). Sales force turnover is an issue in direct selling generally, not only in multilevel marketing (Wotruba, 1990a, 1990b; Wotruba & Tyagi, 1991), and will continue to be so (Berry, 1997). Indeed, turnover in retailing is generally in the double digits, regardless of the nature of the firm or product or service sold. Turnover is partially explained in direct selling by recognising that there are different types of direct selling distributors with different motivations; it is influenced most strongly by the short-term objective and social contact distributors.

Summary, conclusions, and managerial implications

In this paper an argument has been made that multilevel marketing as a retail channel of distribution is neither inherently illegal nor unethical. Thus, this paper attempts to present a positive view of MLM. As in most types of businesses, there are individual companies and distributors that exceed the boundaries of legality and ethicality. Hence, it is necessary to distinguish between a channel of distribution and the specific entities that populate the channel so that gross mischaracterisations do not occur.

By all tests of pyramiding, MLM as practiced by legitimate MLM companies meets the standards for not foisting pyramid schemes on the public. Legitimate MLM companies are involved primarily in the sale of a product or service. High fees for entry are not typically charged, inventory is not loaded, and there is a buy-back provision for unsold inventory. What remains, however, is the issue of internal consumption. Internal consumption in multilevel marketing should be a non-issue, as distributors tend to simultaneously be end-consumers (or ultimate users) and salespersons. If internal consumption is to be deemed illegal or even unethical in multilevel marketing, then it would follow that it should be treated as illegal or unethical generally, especially for salespeople whose compensation is at least partially based on commission.

The ethical behaviour of firms has taken on greater significance and drawn increasing scrutiny since the ethical and legal lapses that occurred in the United States in the early 2000s by such companies as Enron, WorldCom, Arthur Anderson, Tyco, and Health South. But these were lapses of companies and individuals within these companies. Clearly, industries and methods of operation and doing business were not condemned by the actions of a few companies and a few people. For example, the accounting "industry" was not condemned as an industry because of what happened in Arthur Anderson.

MLM firms that are members of direct selling associations abide by codes of ethics. Perhaps a good way to summarise ethical issues and individual company behaviour is found in the beliefs of one multilevel company, Univera (Laichas, 2007, p. 21):

> Demonstrating ethics at a corporate level and in the field is at the very heart of the way Univera conducts business. *"We are pretty clear from the very beginning at the recruiting level about who we are and what our intention is",* says Ochiltree (Stuart Ochiltree, CEO of Univera) *"and we are quite clear that our expectations of people, particularly people in leadership, are more than simply business success. At our senior levels, we expect our leadership to model ethical behavior and attitude in service to customers and in service to their sales organizations".*

A few years ago Rotfeld (2008, p. 125) wrote that

> *People who dislike motorcycles, guns, or bungee jumping attack the marketing of the products as manipulation of people who ride motorcycles, go hunting, or like to jump off bridges. Illogical extremism does not acquire validity because it is arguing in the consumers' interests.*

This conclusion would seem to apply to the critics of multilevel marketing, whose wide-ranging assertions are merely opinions rather than scientifically based conclusions.

What does all this mean to managers in legitimate MLM companies? These managers should not be deterred by what the critics of MLM say, although critics have been influencing government action. Managers must first and foremost engage in behaviour that is ethical, as stated above by the CEO of Univera. In addition, such managers should take heed of the four items that test for pyramiding:

1. make sure there is a product/service to sell,
2. if a fee is charged to become a distributor make it a reasonable fee. Actually it is better to have no specific fee at all unless there is a cost factor in having materials for new distributors,
3. do not overload distributors with inventory, and
4. provide for buyback of unsold inventory.

What does all this mean to makers of public policy? First and foremost is to not condemn an activity based on emotional charges of wrongdoing with no evidence - empirical or otherwise - to support such charges. Public policy should be such that all who behave in a certain way (e.g., all internal consumption purchasers) are treated equally. Second, since internal consumption seems to be a major issue, it is important to remember that the activity is one where an *independent business person* is acting as a *consumer* who is purchasing a product or products for his or her own use, including one's family.

Multilevel marketing should be recognised as an acceptable retail channel of distribution, and internal consumption as both legal and ethical. Indeed, many of the premises and principles of multilevel marketing are found in such marketing trends as viral marketing (Rayport 1996) and buzz marketing (Hughes 2005). This suggests the old adage to "*not throw the baby out with the bathwater*".

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