



Thought piece

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# Multi-Level Beauty Schemes: What Are They and What Can Businesses Learn from Them?

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*Multi-level marketing (MLM) is not a new phenomenon. The classic Avon lady has been selling to her friends and family since the 1880s, and the money she earned was in part passed upwards, to the benefit of the company's founder.*

*The MLM beauty market is worth billions, with Jeunesse making over \$1.6 billion in sales in 2016 based on their age-defying products, and cosmetics company Younique being valued at \$1 billion this year. Questions are frequently raised about the morality and sustainability of such schemes, but is there anything that standard beauty companies can learn from their strategies?*

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## Taking it up a level

MLM schemes are first-cousins to pyramid schemes, but operate in a greyer area. Where pyramids only involve the transfer of money, MLM schemes involve the sale of goods, meaning that there are actual benefits to those who purchase.

The model relies on a wide network of sellers. These sellers both sell the scheme's goods and recruit further sellers (acting as "sponsors"). All recruited sellers pay money to the sellers above them, and receive money from the sellers below them once they have recruited them. It is in the profits from their recruited sellers that the real money is made.

The multi-level business model has been around for a long time. After all, what are warehouses but top level distributors, selling to stores who then sell to customers or other stores? The difference between multiple levels of sales and multi-level marketing schemes, however, is that warehouses and their ilk don't encourage their sellers to then recruit other sellers, creating their own competitors and flooding the market.

Nutralite, or the California Vitamin Company, was the first 'real' multi-level marketing scheme. Founded in the 1930s, it developed a system whereby its 'sponsor' distributors (e.g. a distributor who brought another distributor aboard) would earn a 2% bonus on the sales of the distributors they recruited.

After Nutralite came on the scene, many other similar companies quickly followed suit. While many were scams, there were also many that were genuine – and successful, if their products were appealing and saleable enough.

### Not a never-ending story...

Unfortunately, the MLM growth model is unsustainable. For a start, sellers are expected to recruit sellers from amongst their customers, drying up their customer pool and reducing the number of actual sales they are capable of making. This increases their need to recruit other sellers, who then have the same problem.

And there is a bigger problem involved in the numbers of sellers. If each seller is expected to recruit six more sellers in order to be really profitable, and then those six to recruit another six, and so on, then after thirteen levels of recruitment the number of sellers required is *nearly twice the population of the Earth*.

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*"Only 0.27% of Amway sellers make an income that covers the cost of building and maintaining their business."*

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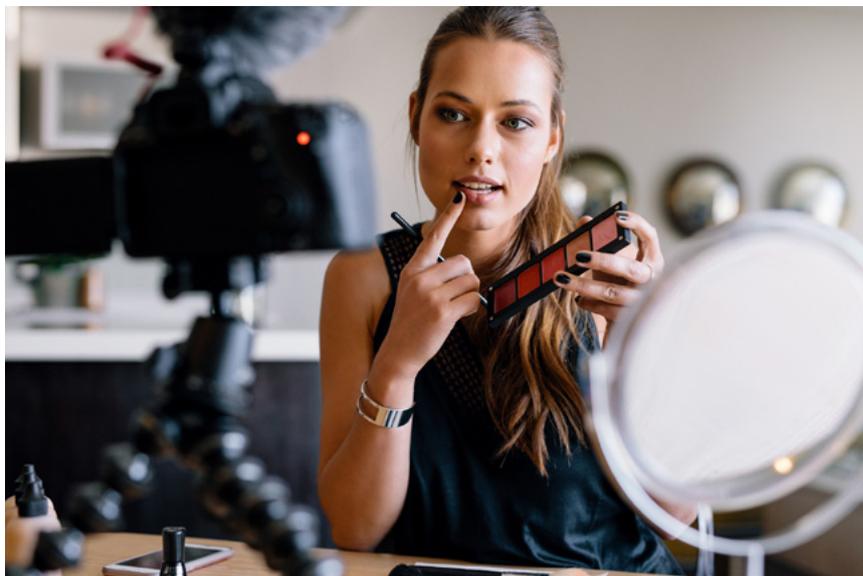
Multi-level marketing schemes are often advertised as a low-hassle opportunity to essentially become a small business owner. Around 50 million people worldwide are part of an MLM scheme of some sort. The schemes make a total of around \$30 billion per year. But the majority of the money remains only at the highest levels, and moves up the pyramid inexorably to those who own and operate it.

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## Booming beauty

The current generation of working-age adults is far more likely than ever before to be self-employed, and is also more likely to be searching for additional income to fund the lifestyle that has come to be expected. This has driven people to MLM schemes in numbers never seen before, and in no sector is this more obvious than in health and beauty.

Rather than inviting virtual strangers to dinner parties and pressuring them into sales (as is the old-fashioned MLM-scheme stereotype), modern multi-level marketing sellers make heavy use of social media. They post constant aspirational updates, make themselves open to clients at all hours, and give anyone the ability to contact them. They are also comparatively honest about what they are doing. The situation is clearly one involving sales from the outset, and their social media pages lead with their products and the benefits.



These sellers are very much aware of their online presence. The most successful ones have accessible personalities, with blogs and social media feeds that help them seem closer to their audience and allow them to connect on a more intimate level. They are also able to reach audiences that are well beyond their direct friendship circle, particularly when they have become popular as beauty vloggers, and are adept at encouraging hits and shares of their tutorials. Social media has therefore made these sellers able to make more from actual product sales than has been possible in the past through selling only to acquaintances.

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## The morals and the money

The key difference between a successful multi-level marketing scheme and a scam lies in their products. If the products actually sell, then it is a real MLM scheme and not a scam. A successful MLM scheme works via a team of enthusiastic salespeople to sell products at a good price directly to their social group, or extended social group. A scam scheme, on the other hand, is one where the money comes from making the sellers themselves buy in stock. Sellers in these schemes are pressured to buy stock before they can even begin selling, and then find that selling it on is impossible. Their stock is often of a low quality, and sometimes even available elsewhere at much cheaper prices.

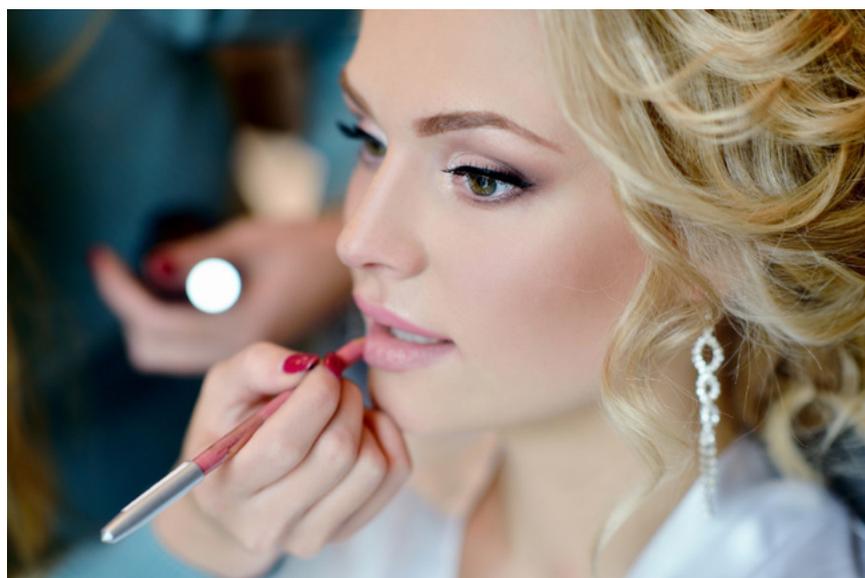
This said, even in a successful MLM scheme, only a small proportion of the salespeople are actually able to make enough income to cover even the costs of their role. For example, in 2008, there was a survey of 33,000 Amway sellers. Only about 90 – 0.27% – made an income that covered the cost of building and maintaining their business. For Herbalife sellers, the story is much the same, with most former distributors losing between \$1,000 and \$10,000 by the time they leave the company.

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## The learning points

The key takeaway from studying multi-level marketing businesses is that they all have one thing in common: a relationship with their customers. This is never more evident than now, with the inexorable rise in the use of social media.

While adopting a multi-level marketing model is unsustainable in the long run, many companies could benefit from adopting elements of their social and reward strategies to build relationships with both staff and customers.



Rewards are a key part of multi-level marketing schemes, with higher-level sellers luring new sellers in with the promise of bonus cars, holidays and so forth. Businesses can mimic this motivation by offering concrete physical bonuses to high-performing staff, particularly in relation to sales targets. Rather than having only large and relatively unobtainable rewards for the very few, these are often more successful when they are lower in value, but rewarded more frequently. Vouchers or dinner out for the best-performing sales team, for example.

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*“Successful MLM sellers believe in the product and the brand.”*

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Rewarding customers can also increase customer engagement. Many of the more successful sellers use social media competitions to encourage customers to tag their friends and followers in exchange for a potential reward. A small outlay therefore produces a large-scale result, with the company's image and brand appearing in thousands or hundreds of thousands of social media feeds.

### **Belief can be everything**

One thing that is evident on any successful MLM seller's social media page is that the seller believes in both the product and the brand. This belief helps them to sell, and is something that should be cultivated in any corporate firm. Having a happy and motivated workforce, and one that believes in both the company they work for and the products they sell, obviously improves customer service and sales. And yet there are many firms which have an attitude of negativity towards their staff, expecting them to go the extra mile instead of moving towards them positively and offering them a vision they can get on board with.

While multi-level marketing is in itself not a particularly viable sales method, by combining some of the more interesting and personal elements of MLM with good sales practice, any beauty business can hope to engage with its customers more on a personal level, improving direct sales and positive word-of-mouth.

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