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**Multi-Level Marketing (MLM)** is a strategy used by some direct sales companies to encourage their existing distributors to recruit new distributors. They **pay existing distributors a percentage of the sales made by their recruits**. The recruits are known as a distributor's "downline."

All distributors also earn money through the direct sale of products to customers. Amway is an example of a well-known direct sales company that uses multi-level marketing.

In other words, multi-level marketing is a strategy in which associates are rewarded not only for the sales they generate themselves but **also for the sales generated by the people in their organizational structure** or network. It is also referred to as MLM (Multi-Level Marketing).

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## Multi-Level Marketing Differs from Pyramid Schemes

This is different from a pyramid scheme. However, **according to the United States Federal Trade Commission (FTC)**, some multi-level marketing companies constitute illegal pyramid schemes due to their resemblance and exploit members of their organization.

Multi-level marketing is a type of **direct selling**. Typically, salespeople sell products directly to consumers through recommendations and word-of-mouth marketing.

MLM representatives not only sell the company's products, **but they also encourage other people to join the company** as distributors to share their recommendations that turn into sales.

## There's Great Appeal in Multi-Level Marketing

**The appeal of Multi-Level Marketing** as a business model lies in its ability to **generate linear income** through both direct sales and **residual income** from building a network of associates who learn to do the same.

As an entire team is created, growing in a **network-like structure** through word-of-mouth recommendations (similar to the growth of social networks like Facebook, WhatsApp, and others), there is a significant increase in product positioning in the market.

This generates revenue that allows for the creation of a compensation system that encourages and motivates the work of all distributors in sharing the products or services they use. Since, in addition to product delivery, there is an implicit training service that the distributor must provide, **more satisfied customers** are achieved, obtaining the desired results.

This leads to more sales, which means that distributors not only earn income from their physical efforts to place a product but also have the potential to create assets that generate passive income when they train other distributors to do the same, through the construction of a solid and ethical network distribution business for products and services.

## Not Everyone Is Happy

Companies engaged in **Multi-Level Marketing have faced criticism and lawsuits** due to their similarity to illegal pyramid schemes. They are accused of setting product prices, high initial costs, focusing on recruiting low-level sellers over actual sales.

There are also allegations of pressure on sellers to purchase and use the company's products, potential exploitation of personal relationships for sales and recruitment purposes, complex and sometimes exaggerated compensation schemes, and cult-like techniques that some groups use to enhance the enthusiasm and devotion of their members.

However, leading global multi-level marketing companies have succeeded through honest and responsible business practices.

For example, in the USA, Herbalife was investigated since 2014 for alleged pyramid scheme usage in its recruitment systems. The FTC (Federal Trade Commission) closed this case in July 2016, defining that, although Herbalife's business model is not a pyramid scheme,

It must restructure its compensation model so that 80% of distributor rewards come from direct sales to end consumers, and not primarily from self-consumption. This case is very important as it has repercussions for all network marketing or multi-level marketing companies.

## Major Multi-Level Marketing Companies

Examples of major global companies that apply multi-level marketing models include: Avon, Yanbal, Amway, Cristian Lay, Dolce, Ebel, 4 Life, Herbalife, Natura, Nature's Sunshine, Nikken, Omnilife, Oriflame, SwissJust, and Mary Kay.

Most MLM setups have at least two levels of depth, with participants working at different tiers. Some may have five or more depth categories.

Read our next article to learn about the [Models or Matrices in Multi-Level Marketing](#).

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