

Dependent self-employment in multi-level marketing

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Summary

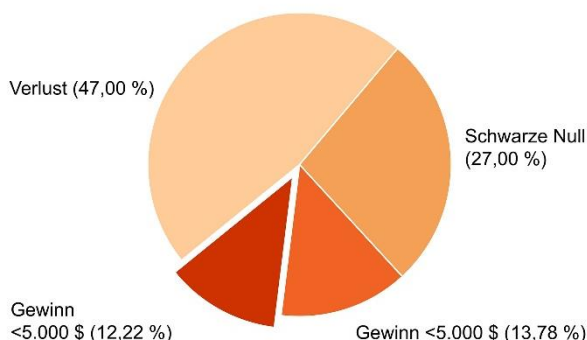
Throughout 2020, the number of solo self-employed members in multi-level marketing (MLM) in Germany continued to rise. Many of the problems of these 910,000 microentrepreneurs are caused by the way MLM companies operate. Although MLM partners are formally self-employed, they are economically dependent on the MLM companies and operate in an unregulated, gray area between dependent and self-employed work. Since many MLM members lose time and money, better rules and regulations are needed for this growing form of employment.

Do you want to earn money from home by selling products even in times of crisis? And build a long-term career while being flexible in your working time?

About 910,000 women and men in Germany accepted such a business proposal in 2020 and worked as self-employed microentrepreneurs for a multi-level marketing company (MLM) (BDD, 2021b). While the self-employed sales representatives of companies such as Mary Kay Cosmetics (cosmetics), LR (health and beauty), Pierre Lang (jewelry), or Tupperware (household) used to hold product parties in their homes, the industry successfully switched to online during the COVID-19 crisis. As a result, the companies that are members of the German federal direct selling association were able to increase their sales by 14% in 2020 alone (BDD, 2021a).

Losing instead of earning money

MLM companies' growth is based on the efforts of their solo self-employed members. To make money, the members often stockpile products, go to paid seminars, and invest time as well as money in their microenterprise (Gross, 2022).



Source: DeLiema et al. (2018)

However, a representative study for the US shows that almost half of all members invest more than they ever earn. About a quarter breaks even. And only 12.2% earn more than US\$5,000 during their entire membership (DeLiema et al., 2018).

This contrasts with why people start working for a MLM company. More than 90% join to earn money part-time or full-time (DeLiema et al., 2018) and thus end up disappointed (see an overview of existing studies in Groß and Vriens, 2019). MLM proponents often respond to such facts arguing that MLM is not only about the money, but also about the community spirit. But this also leads to problems.

Exploiting social relations

MLM members primarily sell among their friends and family members. People who know each other trust each other and might also feel obliged to buy products. In addition, MLM members can also recruit new members. The new recruits form the recruiter's 'downline' and may in turn recruit new members. Recruiters gain from the business activities of those below them (Groß and Vriens, 2019).

Since selling products often turns out to be more difficult than recruiters have promised, many members try to recruit their friends and family members. This way they hope to compensate for their investments and make a profit after all.

What kind of promises existing members make to recruit new ones, can easily be observed on social media. Usually, promises are not about a side income but about becoming rich. On social media, in seminars, and webinars, pictures and videos of luxury mansions, vacations under palm trees, and expensive cars are displayed – all with the promise that they can be earned by becoming an MLM member. Considering the precarious income situation, such promises are morally reprehensible. Moreover, they are risky. After all, anyone who recruits friends and family members with big promises puts their relationships at risk. When, after a while, friends realise that they earn nothing, they feel betrayed and exploited (Groß, 2022).

Where do these problems come from?

Each form of self-employment brings challenges. But the problems in MLM are closely related to how MLM members work and their unclear legal position (Groß and Vriens, 2019):

1. As a rule, 'ordinary' consumers are recruited rather than businesspeople. Very few have any experience with being self-employed and thus rely on what their acquaintances and family members tell them.
2. While formally self-employed, MLM contractors are strongly subject to company policies and decisions. For example, products, prices, discounts, commissions, recruitment terms, and corporate culture are non-negotiable. Members operate in a gray area between dependent and independent work, also referred to as "dependent self-employment" (Kalleberg, 2009). A bargaining counterweight to the often internationally operating large corporations does not exist and the legislation against bogus self-employment does not apply (Groß and Becker, 2018).
3. As often great wealth is promised to anyone who recruits many new members, the distribution structure resembles an illegal Ponzi scheme. The respective legislation, however, offers very little protection to MLM members and prosecutions are rare (Groß, 2022).
4. Consumer protection does not offer much protection either because problems such as financial and social losses originate in the distribution structure and not in the products.

What needs to be done?

The above problems have been existing for decades. MLM members' interests are not well covered by labour policy, and the industry's attempts to self-regulate have proven insufficient (Gross and Becker, 2018).

One remedy could be to continue the debate on minimum standards for all forms of employment as initiated by the EU Commission (European Commission, 2006). Such minimum standards could overcome the traditional dichotomy in many EU countries between dependent and self-employed work. As atypical and often precarious employment is increasing, this dichotomy is no longer considered up-to-date (European Commission, 2006, p. 10).

MLM members could also benefit from a stricter regulation of the 'gig economy' as announced by the European Commission (European Commission, 2021). While MLM is much older than the gig economy, its members operate in the same gray area as self-employed, economically dependent platform workers.

A third possibility would be to protect MLM members on the national level. It could be considered, for example, whether the Federal Ministry of Labour and Social

Affairs explicitly addresses the problem of MLM as a form of employment. Currently, there is no independent information, complaint, and control authority for MLM. Such an authority could also help to remedy the lack of data for Germany. For example, the actual number of MLM companies, their turnover as well as profit and loss of their self-employed members in Germany is largely unknown.

More transparency and explicit rules would be an important step to help the growing number of MLM members in Germany.

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