

## The Sunk Cost Trap: Revealing the Psychology Behind Multi-Level Marketing

Have you ever felt compelled to stick with something in life just because you've invested a lot in it in the past? This is known as the sunk-cost fallacy. Sunk costs refer to irretrievable expenditures and investments made in the past that have provided little to no benefit in terms of return. The fallacy behind it lies in the human tendency to continue investing in the same scheme or project because of prior investment. People continue pouring time, money and effort into a failing endeavour to justify initial costs, although a better decision would be to quit immediately. Statistically, you should stop, but emotionally, you've already named the project and tucked it into bed.

How do multi-level marketing schemes exploit this behavioural tendency?

Let's take the brand Amway as an example. Amway is a worldwide leader in health & beauty. They're your classic pyramid scheme that gets distributors to sell their products, promising great cashback. Individuals must house the products themselves, which involves the purchase as an initial investment (not to mention the cost of training). It has been proven that the distributors at the bottom of the pyramid make little to no profit; however, the illusion sells itself pretty well and lures in hundreds of new distributors every year. This lack of profit is typically due to their expenses exceeding their earnings. New distributors are often required to purchase starter kits, attend training programs, and meet monthly product purchase quotas to remain 'active' in the system. These costs accumulate quickly, and at the same time, their actual sales volume is usually too low to generate meaningful income, especially in saturated markets where many people are selling the same product. As a result, most distributors struggle to recover even their initial investment, let alone make a profit. They're essentially like Alice going down a rabbit hole (that is, without the tea parties and talking caterpillars).

This is where the sunk cost fallacy comes into play. The initial investment they've made into the products keeps them confined to the line of work and the brand, even though there's no actual monetary gain made from this endeavour.

The exploitation of this fallacy, in my opinion, has been well played out by the top of the pyramid to achieve multi-level marketing on a large scale. It is in this systemically invoked bias that countless vulnerable members of society get caged in a fight against their own rationale. So the next time an independent business opportunity comes your way, really look into the facts and figures and ask yourself: Are you selling a product or are **you** the product?

- Sarah Mary  
19/11/25