

The Case (for and) against Multi-level Marketing

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Chapter 8: MLM – A LITANY OF MISREPRESENTATIONS

Is MLM fair and honest – or unfair and deceptive? In this chapter, we find MLM to be a composite lie, made up of a whole litany of misrepresentations.

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Introduction and summary

FTC officials warned that “multi-leveling” poses “an intolerable potential to deceive.” MLM is the direct descendent of classic, no-product pyramid schemes. With expansive pay plans and an endless chain of recruitment, MLM assumes both infinite and virgin markets – neither of which exists. MLM is therefore inherently flawed, uneconomic and deceptive.

As powerfully demonstrated in Appendix 8A, in all of the 30 MLMs for which average income data was presented in Chapter 7, the “income opportunity” is blatantly misrepresented to prospects. And as reported in Appendix 8B, deception is the name of the game in MLM, as over 100 misrepresentations used to promote and defend MLM are presented and debunked.

In fact, in a 1974 ruling, **the FTC found in the very structure of “multi-leveling” or “pyramid selling” (now called multi-level marketing, or MLM) “an intolerable potential to deceive.”**¹ This statement proved to be prophetic, as you will see.

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¹ Holiday Magic, Inc., Docket No. 8834, slip op. pp. 11-14 [84 F.T.C. 748 at pp. 1036-1039] (Oct. 15, 1974); Ger-Ro-Mar, Inc., Docket No. 8872, slip op. pp. 8-12 [84 F.T.C. 95, at pp. 145-149] (July 23, 1974), rev'd in part 518 F.2d 33 (2d Cir. 1975).

Unfortunately, the FTC backed off from that finding in its 1979 Amway case, which opened a Pandora's box of pyramid selling. In fact, over 35 years' experience has proven the 1974 ruling to be correct. As a student of business opportunities for over 40 years myself, I find it inconceivable that there could exist any income or business opportunity that is more deceptive than MLM.

However, it is my observation that both MLM officials and TOPPs (top-of-the-pyramid promoters) do not engage in theft by deception deliberately. They are victims of their own self-deception and must of necessity justify their flawed programs.

It is not only spokespersons for the MLM firms that concoct and spread clever rationale for their inherently flawed and deceptive programs. Spokespersons for the DSA, their chief lobbying organization, are under enormous pressure to create arguments justifying their members' programs. They even have a "Code of Ethics" which supposedly prevents the worst abuses. However, the rules have gaping holes in them, and most MLMs manage to circumvent these rules.

MLMs routinely misrepresent potential earnings

I have analyzed the compensation plans of over 350 MLMs, using the five causative and defining characteristics of recruitment-driven MLMs, or product-based pyramid schemes. For every MLM examined so far (100% of them), I have found them to be recruitment-driven and top-weighted. This means that income is derived primarily from building a large downline, not from retailing products to consumers. Also, most of the commissions and bonuses paid by the company to participants go to a relatively small number at the top of the hierarchy (pyramid) of participants. As such, they are extremely unfair and deceptive.

This is worth repeating, as it has been so literally fulfilled: In a 1974 ruling, the FTC found in the very structure of "multi-leveling" or "pyramid selling" [now called multi-level or network marketing, or MLM] "an intolerable potential to deceive." This chapter proves it.

Also, in all (100%) of the MLMs for which I was able to obtain average earnings data, the loss rate was abysmal, with an average of 99.6% of all participants losing money (using liberal assumptions

in their favor), after subtracting "pay-to-play" purchases and minimum operating expenses. These MLMs are listed in Appendix 8A, along with typical earnings misrepresentations. The loss rates for these MLMs, as I calculated them, are included in the Appendix 7A of Chapter 7.

Over 100 typical misrepresentations are used in MLM recruitment campaigns.

As mentioned earlier, all of the MLM compensation plans I analyzed are recruitment-driven and top-weighted. In order for them to appeal to prospects, a litany of misrepresentations (including the income misrepresentations in appendix A) are used to get people to sign up – and to defend them against critics. So I would have to say that MLMs are also deception-dependent. This is because if prospects were clearly told the truth about them, few if any would sign up.

Appendix 8B. Includes ten categories of the typical misrepresentations (including those related to income) used to lure new recruits into joining and continuing to invest in an MLM - and to dupe regulators into accepting their abuses.² Included are some I have personally observed, some that have been reported to me, and some that have appeared on websites or publications of the MLMs. Surely there are dozens more.

After examining these, one might be tempted to label MLM as "theft by deception." However, my observation of MLM leaders and spokesmen is that they

² Primary source materials for this list are listed at the end of the chapter.

don't deliberately go about seeking to deceive people. I have observed a lot of self-deception among these people, many sincerely believing the falsehoods they are spreading. There seems to be cult-like twisting of truths to fit any situation and an eagerness to share the latest justifications for the most outrageous claims, especially those related to income potential.

In other words, it is not the people or the products that are the problem, but the underlying system. All MLMs are built on an endless chain of recruit-ment. MLM compensation plans assume infinite and virgin markets, neither of which exist in the real world. MLM is therefore inherently flawed, deceptive, and profitable primarily for founders, TOPPs (top-of-the-pyramid promoters, and those who enter the chain of recruitment near the beginning – all at the expense of a revolving door of new recruits, who become its victims.

Conclusions

After studying the compensation plans of over 350 MLMs, I can say with confidence that virtually all MLMs are dependent on deceptive recruitment of an endless chain of participants as primary (or only) customers. Incentivizing endless chain or infinite recruitment within a finite marketplace, MLM is not only inherently flawed, unfair, and deceptive; but is also extremely viral and predatory – rapidly expanding and deluding the most vulnerable among us. While many or most participants are not deliberately deceiving recruits, they are unwittingly drawn into the complex web of deceptions such as those listed above – since to tell the truth would lead to failure in their recruiting efforts.

The appeal in MLM promotions and the typical MLM reports of earnings of participants are dependent on a host of misrepresentations and deceptive sales practices. To be successful in MLM, one must not only work hard, but one must also –

1. Be deceived
2. Maintain a high level of self-deception
3. Go about deceiving others
4. Maintain denial of the harm done to those recruited into the chain or pyramid of participants.

The degree of deception (and even total amounts in aggregate damages by MLMs as a group) exceeds the deceptions reported in the Bernie Madoff scandal and in the Enron stock scandal (plus WorldCom and Global Crossing). However, in the case of MLM, participants engage in self-deception as much as in deliberate misrepresentations. In short, the typical MLM is a composite lie, dependent on an endless chain of recruitment into a pyramid of participants who unwittingly engage in massive theft by deception.

It appears that the following warning that was also cited at the beginning of this chapter has proven to be prophetic and has been fulfilled to the letter:

. . . in a 1974 ruling, the FTC found in the very structure of "multi-leveling" or "pyramid selling" [now called multi-level or network marketing, or MLM] "an intolerable potential to deceive."

Warning to readers

If you are investigating MLM, and you read this chapter – including both appendixes – with an open mind, it is not likely that you will be able to look at MLM as a credible class of business opportunities. At the very least, all of the over 350 MLMs I have analyzed so far can be classified as unfair and deceptive practices. And all (100%) of those for which I was able to obtain average earnings data are misrepresenting the possible earnings of participants.

To be successful in MLM, one must not only work hard, but one must also –

- 1. Be deceived**
- 2. Maintain a high level of self-deception**
- 3. Go about deceiving others**
- 4. Maintain denial of the harm done to those recruited into the chain or pyramid of participants.**

Appendix 8A: Quotations from MLM Company Communications and their Misrepresentations as “Income Opportunities” or “Business Opportunities”

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The statements in italics are direct quotes from MLM company web sites or promotional literature. My comments are bracketed in bold type. Read Chapter 7 to see how I calculated a 99.6% loss rate for the 30 MLMs with available average earnings data.

Advocare

“AdvoCare offers a proven vehicle for success. You can earn income quickly and take advantage of a business opportunity that can last a lifetime.”³

[Advocare fails to disclose that approximately 99% of all Independent Advocare distributors lose money.]

*“With AdvoCare, you have the opportunity to earn unlimited income through product sales as an Independent AdvoCare Distributor.” **[Unlimited income? This claim is mathematically impossible and therefore false and misleading.]** “Because the products are consumable, you have a business that offers residual income every two weeks! Your earning potential is based solely on your efforts.” **[and willingness to deceive others with the same falsehoods]**⁴*

Ameriplan

[Average annual income⁵ is disclosed for “Active IBO’s” – but with no indication of what percentage of the total of all IBOs signed up are still active. Ameriplan also fails to disclose that approximately 99% of all IBOs lose money after subtracting “pay-to-play” and minimum operating expenses.]

Amway (was “Quixtar” in the USA from 1999 to 2009)

“How Amway Works”

*“Amway believes that hard work should be rewarded.” **[It is not disclosed that hard work is seldom rewarded in Amway.]***

“Put simply, the Amway Independent Business Owners Compensation Plan rewards you for selling products and for sponsoring others as Independent Business Owners who do the same.”

[Amway does not disclose that approximately 99% of all IBOs lose money.]

“You earn income from:

“Retail markup on product sales to customers.” **[It is not disclosed that because of high prices, it is rare for this to occur. A recent California class action showed that less than 5% of products are sold at retail.]***

*“Monthly performance bonuses ranging from 3% to 25% of business volume depending on your monthly productivity.” **[It is not disclosed that few get to more than 6% bonus.]** “Monthly and annual leadership bonuses and other cash awards and business incentives based on group”*

From “Simple Steps to Success”⁶

*“Step 2: Retail. As your product knowledge increases, you will discover people all around you who need what you have to offer through your Amway business. Retail selling is the easiest way to make money through your Amway business.” **[This statement is a blatant misrepresentation, as a recent California class action showed that less than 5% of***

³ <https://www.advocare.com/opportunity/default.aspx>

⁴ From an Advocare-approved posting by one of their distributors, Mary Myers, of Amarillo, TX at -
<https://www.advocare.com/10047016/default.aspx>

⁵ <http://www.ameriplanusa.com/disclaimer-broker.html>

⁶ <http://www.amway.com/en/start-a-business/how-amway-works>

Amways' overpriced products are sold at retail.]

“Step 3: Sponsor. For some of your friends, products provide the solution they seek. For others, the Amway business opportunity will have strong appeal as they seek a business that can help them achieve their goals.” [But again, Amway does not disclose that approximately 99% of all IBOs lose money.] “When you sponsor them, you can be rewarded for the business volume they generate. It’s that easy. Sign up for your own Amway business today.”

Arbonne Int'l

(Referring to Arbonne’s network marketing system) “It’s an incredibly effective system that cuts the cost paid to the “middle man” ... offering you a higher earning potential.”⁷ [This statement is a blatant misrepresentation. Arbonne fails to disclose that network marketing, or MLM, is actually incredibly ineffective (at least unfair and deceptive), creating instead thousands of “middle men” – and that approximately 99% of all participants lose money.]

Cyberwize

“The First Tier Salespeople”

“This is the entry level of the MLM, where salespeople start. These people are usually drawn to the MLM by the promise of good money and flexible schedules.”⁸ [Cyberwize fails to disclose that approximately 99% of all participants lose money.]

Ecoquest (now Vollara)

“Our Opportunity⁹ - Unleash Your Future”TM

“. . . Imagine the freedom you can have when you become your best self. Imagine the freedom you can have when you have the tools, the systems and the power to reach beyond hope, to imagine beyond dreams, to make it all real; when you have products you can count on, systems and support that nurture you and a financial opportunity that has virtually no limits. Vollara has been crafted skillfully with the purpose of giving you the power to have an unlimited future, to confidently march forward down the path of your imagination and dreams.” [No limits? Unlimited future? This would only be true in infinite and virgin markets, neither of which exist in the real world. Also, Vollara fails to disclose that approximately 99% of all participants lose money.]

Fortune Hi-Tech Marketing (FHTM)

“Why FHTM?”¹⁰

“. . . FHTM provides an opportunity for those willing to work to achieve their financial goals and life dreams by providing a diverse lineup of competitively priced, exceptional products and services. Independent Representatives of FHTM have the opportunity to earn a residual income over time by acquiring loyal customers and introducing the FHTM opportunity to others.” [FHTM fails to disclose that approximately 99% of all participants lose money. And therefore the promises of an “opportunity for those willing to work to achieve their financial goals and life dreams” and of a “residual income” are misrepresentations.]

FreeLife International

“The Opportunity¹¹ - Create A Business that Gives You Freedom”

“People across the world have changed their lives with FreeLife’s lucrative business opportunity.” [Lucrative? Perhaps it is for a few at the top.]

⁷ http://www.arbonnemarketing.com/PDF/opportunity/2010_US_EN_OpportunityBrochure.pdf

⁸ <http://www.cyberwizehealth.com/understanding-mlm-tiers-and-cyberwize/>

⁹ <http://www.vollara.com/join-us/why-vollara>

¹⁰ <http://www.fhtm.net/whyfhtm.aspx>

¹¹ <http://corporate.freelife.com/international/usa/index.cfm/opportunity>

“With our scientifically validated breakthrough health products and powerful Compensation Plan, you can embark on a life-changing journey rich with the opportunity of improved health, significant income, and far more freedom to do the things you enjoy most.” **[FreeLife fails to disclose that approximately 99% of all participants lose money.]**

Herbalife

“Herbalife Business Opportunity”

“Welcome to the Herbalife opportunity website.¹² Read more about the outstanding opportunity that becoming an Herbalife Independent Distributor can offer. Learn how you can help make other people's lives better through weight management and good nutrition, while at the same time earning an extra income.” **[Herbalife suggests that an “extra income” is possible, without disclosing that their compensation plan is recruitment-driven and top-weighted, making actual net profits from part-time participation extremely unlikely.]**

“Becoming an Independent Distributor allows you to enjoy the benefits of a lucrative Herbalife Distributor compensation plan.” **[Lucrative? Perhaps it is for a few at the top, but Herbalife fails to disclose that approximately 99% of all Independent Distributors lose money.]**

Ignite –Stream Energy

[Ignite’s “Turning Energy Into Income”¹³ video portrays Ignite as a great income opportunity, but nowhere is it disclosed that approximately 99% of all of its Independent Associates lose money.]

Immunotec

“Build the Business You Want with Immunotec”¹⁴

*“Immunotec offers a proven business and compensation plan so you can build a business that serves you — whether it’s earning a few hundred dollars a month or creating full-time income. **[Immunotec’s compensation plan is recruitment-driven and top weighted and does not lend itself to part-time income.]** “With Immunotec “Independent Consultants” purchase products directly from the manufacturer and sell directly to customers, doing away with two levels of costs and markups and creating more profit for all those involved.” **[The compensation plan actually has at least 7 levels or ranks and up to G8 on the top level. Immunotec also fails to disclose that approximately 99% of all Independent Consultants signed up earn no profits at all, and in fact lose money.]** “In addition, with our ImmunoDirect program you have the opportunity to build residual income from all of the customers who join you on autoship, creating an ongoing stream of income for you. You do the work once but continue to get paid for it.” **[This would only be true for as long as consultants in one’s downline stay with the company. This residual or ongoing stream of income touted by Immunotec is a myth for at least 99% of all those sign up.]** “Unlike other jobs, where you trade ‘hours for dollars,’ you have your own business and a team of people working and earning money for you. . . . The income earned through the Immunotec compensation plan is determined by the number of Consultants that you have, the amount of their purchases, and your ability to share the opportunity with others who in turn gather and support their own customers and Consultants. Immunotec pays commissions and bonuses based on products purchased, not for the recruiting of Consultants.” **[Yet their recruitment-driven, top-weighted compensation plan clearly rewards the building of a huge downline, not the sale of products. In fact, their web site refers to “The Power of Geometric Progression” in terms that tout the benefits of recruiting a downline.]** “. . . an Immunotec business offers a significant residual income potential (an annuity of sorts.)” **[This “annuity” or “residual income” claim is very***

¹² <http://www.herbalifeopportunity.com/>

¹³ <http://igniteinc.com/ig/>

¹⁴ <http://www.immunotec.com/IRL/Public/en/CAN/compplan.wcp>

misleading, especially since they fail to disclose that approximately 99% of all Consultants lose money and the vast majority of Consultants abandon the business.]

iNetGlobal

“The iNetSurf Advantage”¹⁵

“We Reward you for the time you spend actively surfing the iNetSurf Pay Per View™ Rotator. We will also Reward you for the sites your direct referrals (people who enter your Member ID when they sign up) Surf and for the sites extended referrals (people referred to iNetSurf by your direct referrals and people referred by your extended referrals up to 6 Levels Deep) Surf with us. There is no limit to the number of referrals you can get paid for!” **[There IS a limit to the number of people on the earth, making this a misleading and hollow promise. Also, they fail to disclose that approximately 99% of all participants in their scheme lose money.]**

Isagenix

“Compensation Plan”¹⁶

“Learn about the most generous compensation plan in Network Marketing history from Isagenix’s Co-Founder, Kathy Coover.” **[If this is true, then it is a condemnation of the entire MLM industry, since independent analysis shows approximately 99% of all Isagenix participants lose money. This is not disclosed by Isagenix.]**

Mannatech

“One of the Industry’s Healthiest Compensation Plans”

“The purpose and success of Mannatech are directly affected by the hard work and spirit of our Associates. We reward our Associates with the chance to gain financial freedom simply by building a Mannatech business through the distribution of our premium wellness products. While we’re known the world over for our products based on Real Food TechnologySM solutions, our award-winning compensation plan also gains plenty of attention. Recognized specifically by the Direct Selling Association in 2005, our Career and Compensation Plan is one of the most lucrative in the industry.” **[This doesn’t say much for the industry because our analysis shows approximately 99% of all Associates lose money.]**

Melaleuca

“Melaleuca is on a Mission.”¹⁷ See how we’re helping:

“Stay-at-Home Moms

“Would you like... to stay at home with your children? . . . contribute to your household income? . . . have time for what is most important? You can! Thousands of moms have discovered how Melaleuca can make that possible.”

“Business Professionals

“Want more time freedom? Want to build your own business and your own future? Want to decide when and how much you work? Then, a Melaleuca business can be your solution.

“People Wanting a Secure Retirement

“Finding security in retirement is a lost hope for many people in today’s economy. But, at Melaleuca, we’re helping families secure their retirement, pay for children’s education, get out of debt and find security in the second half of their life.

“Families Trying to Get out of Debt

“At Melaleuca, our focus is helping families get out of debt. We talk about, reward and teach important money management principles. More importantly, we not only encourage better money management, but we provide a way for families to increase their income and pay off their debts. Getting out of debt at Melaleuca works because a Melaleuca business works!”

¹⁵ <http://www.inetglobal.com/inetsurf/index.php?pid=iNetSurf:Index>

¹⁶ http://www.isagenix.com/us/en/opportunity_overview.dhtml

¹⁷ <http://www.melaleuca.info/?culture=en-us>

[Melaleuca fails to disclose that approximately 99% of all participants lose money and therefore get further behind financially because of their participation.]

Mona Vie

“Opportunity Overview”

“Is it time that you want, or more time? Health, or better health? An income, or a bigger income? Freedom, or greater freedom? Whatever your goals are, MonaVie can help you achieve them.”

[Mona Vie fails to disclose that approximately 99% of all participants lose money, which does little to further the goals of anyone but those few who are reaping the benefits.]

MXI Corp. (Xocai)

“Compensation Plan”¹⁸

“Learn how you make money with MXI Corp. Go step by step, at your own pace, though the easy-to-navigate video. Learn the 8 ways to earn bonuses in the most lucrative compensation plan in the industry.” **[MXI fails to disclose that approximately 99% of all participants lose money]**

Nikken

“No boundaries.”¹⁹

“In today’s world, you can’t expect to achieve financial security by working for someone else. Compare that to Nikken, where you have complete flexibility and unlimited opportunity.”

[Unlimited opportunity??]

“Earn extra money part-time, or develop a new career. Build your own business and create a steady source of income. We give you the tools, the support, the guidance from experienced professionals. Life as an Independent Nikken Consultant gives you the freedom to live as you wish. To earn as much as you deserve.” **[Nikken’s compensation plan does not reward part-time effort with even enough money for bubble gum, after subtracting expenses. And doesn’t a new recruit deserve to earn a profit from reasonable effort? Yet Nikken fails to disclose that approximately 99% of all participants lose money. And would it not be another deception to assume that 99% didn’t try!]**

Nu Skin

“Financial Rewards”²⁰

“Nu Skin’s Sales Compensation Plan is very simple, but innovative and highly rewarding.”

[Rewarding for whom? Nu Skin fails to disclose – even on its “average income of distributors” reports – that approximately 99% of all distributors lose money.]

“Did you know?”

“Nu Skin has paid over \$6 billion in distributor commissions in only 25 years of operation?” **[This is very misleading because Nu Skin fails to disclose that the vast majority of the \$6 billion went to less than 1/10 of 1% of all distributors.]**

Reliv

“Become a Reliv Distributor.”²¹

Experience life on your own terms — starting now!

“Ready to take control of your health, your finances and your future? Want to be on the leading edge of an exciting entrepreneurial opportunity poised to experience explosive growth? Then don’t hesitate – become a Reliv Distributor today!

¹⁸ <http://www.mxicorp.com/compplan/>

¹⁹ <http://www.nikken.com/opportunity/>

²⁰ http://www.nuskin.com/en_US/opportunity/financial_rewards.html

²¹ <http://www.reliv.com/US/EN/Become+a+Distributor.html>

“Limitless Income Potential – Five separate avenues of income make Reliv’s compensation plan one of the most lucrative in the direct sales industry.

["Limitless income potential" is mathematically impossible and is therefore misleading.]

“Your opportunity is here. Your time is now. Your future is Reliv! [These are misleading statements, especially when Melaleuca fails to disclose that approximately 99% of all participants lose money]

SendOutCards

“Receive Compensation By Sharing SendOutCards”²²

“SendOutCards is all about improving lives, and a big part of that is financial freedom. Our income opportunity provides you with exactly that. Here’s a look at how you can earn an income by sharing SendOutCards with others:

“Residual Income from Cards & Gifts Purchased”

“As you build an organization of preferred customers and other licensed entrepreneurs, you’ll earn a retail profit on points purchased towards cards and gifts according to [SendOutCards’ Compensation Plan](#).“With the potential to have an organization of thousands, imagine the residual income you can create in only a few years!” [But SendOutCards does not disclose that after expenses (and depending on attrition, which is also not disclosed) as many as 99% of all participants actually lose money.]

Sunrider

“Since 1982, Sunrider International has helped people around the world achieve success and financial independence with our rewarding business opportunity.” [Sunrider fails to disclose that approximately 99% of all participants lose money]

Symmetry

“Could you stand having more money in your pocket? It’s easier than you think to have more money coming in every month. And it’s the kind that keeps coming in. What we’re talking about is a residual income that comes in long after you stop working. You can do the work once and keep getting paid on it for years to come. Only a select few in the world can have a residual based income like this. It’s usually reserved for creative artists and authors. But you’re about to discover how you can create one yourself without any special skills or previous experience.” [To talk about such “residual income” for years without disclosing the high attrition rate of participants in an MLM is misleading. Also, Symmetry fails to disclose that approximately 99% of all participants lose money]

Tahitian Noni International

“Want an extra \$500 a month? This home based business is the answer!”²³

“Looking for a solid and reputable home based business? Tahitian Noni International’s Independent Product Consultants work part time to create lasting residual income using remarkable Noni fruit products.” [To talk about such “lasting residual income” without disclosing the high attrition rate of participants in an MLM is misleading. Also, Tahitian Noni International fails to disclose that approximately 99% of all participants lose money]

Tupperware

“Opportunity – Tupperware, the Perfect Fit.”²⁴

“Imagine life on your terms—complete with more time for family, friends and fun, more flexibility

²² https://www.sendoutcards.com/cgi-bin/trncustomer.pl?income_opportunities:

²³ Tahitian Noni International Independent Product consultant web site (likely approved by TNI) at - <http://www.nonijuiceint.com/TahitianNoniHomeBusiness.aspx>

²⁴ http://www.tupperware.com/pls/htprod_www/tup_opportunity.opportunity

and more financial freedom. “The lifestyle of Tupperware leaders is nothing less than wonderful! Trips, diamonds, cars and cash bonuses are just a few of the perks you can Find In Tupperware. “Whether you’re looking for a little extra money to spend on your family or yourself, or you would like a chance to build a career on your own terms, Tupperware can help you make it happen.” (In video on web site, “earnings of \$1,000 a month for six hours per week are suggested.”) [Tupperware, with a long-standing reputation for fair dealing in the past, seems to have converted in April 2005 to a more highly leveraged compensation plan they call the “Tupperware Breakthrough Plan,” that provided greater rewards to high level participants (“Directors”).²⁵ The company does not disclose that net profits after expenses for part-time work are unlikely and that (depending on attrition, which is also not disclosed) as many as 99% of all participants could be losing money. Based on their current compensation plan and their 2008 Income Disclosure Summary, the suggestion of \$1,000 a month for six hours per week seems very misleading.]

USANA

“Compensation”²⁶

“USANA’s innovative pay plan puts you in control of your commission check with six ways you can make money. Learn how smart entrepreneurs leverage their time and effort to create a thriving, profitable business.”

“Six Ways to Create the Wealth You Want”²⁷

“USANA’s unmatched Binary Compensation Plan gives you several ways to earn generous commissions every week in direct proportion to your ability to sell USANA’s products to your customers and build an organization of Independent Associates who do the same.”

[USANA fails to disclose that approximately 99% of all participants lose money]

World Ventures

“World Ventures Highlights – Marketing”²⁸

“In November 2007 we gave away a brand new 2008 Mercedes C-300 Sports Sedan.

“In March 2008 we gave away a brand new 2008 Porsche Cayman. In November 2008 we gave away a brand new 2009 Mercedes C-300 Sports Sedan. In March 2008 we launched a brand new Premium Service Program (PSP), featuring Video. [etc.]”

[All this sounds exciting, but World Ventures fails to disclose that approximately 99% of all participants lose money]

XANGO

“Compensation Plan”²⁹

“The XANGO compensation plan provides a clear and simple road to accomplish everything you’ve ever dreamed. A full 50 percent of commissionable volume on each XANGO product sold goes straight back to commission payments. No tricks. No fuzzy math. No hidden changes to your earnings (breakage). Just wide-open opportunity and products that demand attention.”

[However, XANGO fails to disclose that approximately 99% of all participants lose money]

Yor Health

“Take Charge of Your Success”³⁰

“At YOR Health, we have a unique opportunity. . . . With our incredible product line, we make it simple for even the average person to become an entrepreneur and take control of their own financial well-being. . . . Here at YOR Health you will [be] building towards your financial freedom and

²⁵ Reported in Presentation Summary, S2Sales Force Structure.Earnings Conference Call, Jan. 31, 2007.

²⁶ <http://www.usana.com/dotCom/opportunity/index>

²⁷ <http://www.usana.com/dotCom/opportunity/comp>

²⁸ <http://www.worldventures.com/new/wv-highlights.php>

²⁹ <http://www.mxcorp.com/compplan/>

³⁰ <http://www.yorhealth.com/opportunity/letter-from-the-founder.aspx>

living a healthy lifestyle. The momentum we carry and the direction we are headed, in this devastating economic atmosphere, make this a once in a lifetime opportunity to hopefully make lots of money. . . After all, money has no value when there's no health. Wouldn't it be good to have both?" [Yor Health fails to disclose that approximately 99% of all participants lose money]

Your Travel Biz (YTB)

What is YTB?³¹ . . . In 2004 YTB signed on just over 8,000 of these independent contractors, called RTAs (Referring Travel Agents). That number jumped to over 60,000 in just two years and currently 'YTB has over 130,00 RTAs worldwide with hundreds of RTAs earning well over a million dollars a year from their own home-based business. . . YTB's innovative and ground breaking concept of giving everyday people the opportunity to generate enormous residual incomes from the hottest industry on earth by referral marketing is certainly behind much of this extraordinary growth. [YTB fails to disclose that approximately 99% of all participants lose money]

Primary sources for this chapter

Primary source materials used in compiling the above lists include the following:

- *"Typical Misrepresentations Used in MLM Recruitment," "Who profits from MLM? Preparers of Utah tax returns have the answer,"* and numerous other reports, by Dr. Jon M Taylor, all posted on the web site – mlm-thetruth.com
- *The Network Marketing Game*, by Dr. Jon Taylor, 1997:King Alfred Press
- *"Top 10 Myths & Facts about Direct Selling,"* posted on the DSA-sponsored web site [Directselling411](http://Directselling411.com)
- *"Ten Myths of 'Income Opportunity' in Multi-level Marketing,"* by Robert Fitzpatrick, President, Pyramid Scheme Alert. Available from pyramidschemealert.org
- *"The Mirage of Multi-level Marketing,"* by Stephen Barrett, MD, published on MLM Watch at mlmwatch.org
- *"Four Lies about MLM,"* by John Milton Fogg, author, publisher, consultant & trainer in network marketing. Posted in 2002 on mlmwatch.com
- *"Top 10 Myths & Facts about Direct Selling,"* posted on the DSA-sponsored web site – directselling411.com
- Web site for Direct Selling Assn. – dsa.org
- DSA comments to the FTC on its proposed Business Opportunity Rule, 2006, and Revised BOR, 2008
- Google search of the top references from among 430,000 results, using as search terms "MLM" combined with the terms "misrepresentations," "lies," and "deceptions"
- My one-year test of the Nu Skin program
- Analysis of over the compensation plans of over 350 MLM programs
- Analysis of web sites of 30 MLMs that release statistics of average earnings of participants (reported in Chapter 7)
- Correspondence with and feedback from thousands of MLM leaders and participants worldwide over a 15-year period from 1995 through 2010

In a 1974 ruling, the FTC found in the very structure of "multi-leveling" or "pyramid selling" [now called multi-level or network marketing, or MLM] "an intolerable potential to deceive."

³¹ <http://www.ytbpositivethinking.com/>

Appendix 8B: Misrepresentations regarding MLM as a business model – compared to legitimate direct selling, pyramid schemes, etc.

MLM misrepresentations	The truth
<p>MLM is a form of direct selling, which has a long history of independent selling by “door-to-door salesmen” and of selling to friends, neighbors, and family members. It is this person-to-person relationship selling that is one of its great strengths.</p>	<p>MLM should more properly be considered chain or pyramid selling, as few sales are made to customers outside its network of distributors. MLM promoters have sought legitimacy with the “direct selling” label by joining the Direct Selling Association (DSA), which lobbies to promote the interests of MLM. We should not accept an MLM as a legitimate direct selling company when compensation plans reward huge payouts to TOPPs (top-of-the-pyramid promoters) for recruiting a large downline, while paying only a pittance for selling to non-participants. This would be true of recruitment-driven MLMs that are members of the DSA.</p>
<p>Network marketing is the most popular and effective new way to bring products to market. Consumers like to buy products on a one-to-one basis in the MLM model.</p>	<p>From Robert FitzPatrick: <i>If you strip MLM of its hallmark activity of continuously reselling distributorships, . . . you encounter an unproductive and impractical system of sales upon which the entire structure is supposed to rest. Personal retailing is a thing of the past, not the wave of the future. Retailing directly to friends on a one-to-one basis requires people to drastically change their buying habits. They must restrict their choices, often pay more for goods, buy inconveniently, and awkwardly engage in business transactions with close friends and relatives. The unfeasibility of door-to-door retailing is why MLM is, in reality, a business that just keeps reselling the opportunity to sign up more distributors.</i>³² In other words, it’s easier to sell an “opportunity” than to sell overpriced products.</p>
<p>MLMs are not pyramid schemes, but legitimate direct selling programs. People that work hard can reap the rewards for the rest of their lives.</p>	<p>MLMs, or product-based pyramid schemes, have been found to be the most extreme of all the types of pyramid schemes, by any measure - loss rates, aggregate losses, number of victims, and degree of leverage. MLM loss rates (approx. 99 %) – are far worse than for no-product schemes, or even than most gambling casino games. These catchwords are used by MLM promoters to appeal to the desires for “easy money” that keeps on growing and providing for the comforts of life – and the resources to do what we want, when we want. However, one of the stark realities of MLM is an extremely high attrition rate.</p> <p>Available statistics suggest that 90-99% of recruits terminate or are inactive within a few years of joining. Those few who “succeed” must be constantly recruiting others to replace a revolving door of hapless victims of these deceptions. This can become totally consuming, leaving little time or energy for anything else.</p>

³² “Ten Myths of ‘Income Opportunity’ in Multi-level Marketing,” by Robert Fitzpatrick. Available from pyramidschemealert.org

<p>What's all the fuss about pyramid schemes, anyway? Almost all major organizations are organized like pyramid schemes, with many (even thousands of) workers at the bottom, two or more levels of middle managers, some vice-presidents, and then the president or CEO at the top. Even the federal government could be said to be a pyramid scheme.</p>	<p>This observation shows an almost total lack of understanding of what makes a pyramid scheme an unfair and deceptive practice, to use FTC terminology. It isn't the pyramidal structure that is the problem, but the endless chain of recruitment of participants as primary customers. Persons are not appointed to ascending levels in the pyramid, but must recruit their way up. And in the case of recruitment-driven MLMs, the compensation plan rewards TOPPs (top-of-the-pyramid promoters) the bulk of the commissions, which drives them to place almost total effort on recruitment and not on selling products to non-participants. Primary income from commissions on sales to downline participants makes it a money transfer scheme, transferring money from those at the bottom to those at the top. (See Chapter 2.)</p>
<p>MLM is the most powerful marketing methodology ever developed. It's possible to get quite wealthy and earn your life back with an MLM business and to do good for your friends and community in the process.³³</p>	<p>MLM is the most unfair and deceptive marketing methodology ever developed. It's power is also its inherent flaw – the endless chain of recruitment, which uses the same principle as a chain letter or classic pyramid scheme. A few do get wealthy at the expense of a multitude of victims who lose money investing in an exploitive system.</p>
<p>Any MLM that offers legitimate products is by definition not a pyramid scheme.</p>	<p>The most extreme and harmful pyramid schemes are product-based pyramid schemes by any measure – loss rates, aggregate losses, number of victims, etc. In fact, the introduction into a pyramid scheme of products which must be purchased in order to qualify for commissions or advancement in the scheme (“pay to play”) increases the number of people defrauded because downlines are far larger than for no-product pyramid schemes. And just because a law in a particular jurisdiction excludes MLM in its definition of a pyramid scheme does not negate the losses suffered by participants. Any MLM may still qualify as simple fraud or as a deceptive sales practice. Robert FitzPatrick of Pyramid Scheme Alert wrote: <i>The sale of products is in no way a protection from anti-pyramid scheme statutes or unfair trade practices set forth in federal and state law. MLMs that sell useful, quality products have been successfully prosecuted under anti-pyramid scheme laws by state and federal officials. MLM is a legal form of business only under certain rigid conditions set forth by the FTC and state Attorneys General. Many MLMs are currently in gross violation of these guidelines and operate only because they have not been prosecuted. Federal regulators have used a 70% rule to determine an MLM's legality. At least 70% of all goods sold by the MLM company must be purchased by non-distributors. This standard would place most MLM companies outside the law. The largest of all MLMs acknowledges that only 18% of its sales are made to non-distributors.</i>³⁴</p>

³³ “MLM Lies, Exaggeration, and BS,” by John Zehr at johnzehr.com

³⁴ “Ten Myths of ‘Income Opportunity’ in Multi-level Marketing,” by Robert Fitzpatrick. Available from pyramidschemealert.org

<p>There's a big difference between legitimate direct selling companies and pyramid schemes. Pyramid schemes seek to make money from you (and quickly). Legitimate direct selling companies seek to make money with you as you build your business (and theirs) by selling real products and services. In fact, legitimate direct selling companies work hard to protect consumers from pyramid schemes.</p>	<p>It is true that there are big differences (plural) between legitimate direct selling companies and pyramid schemes. But the difference as stated by the DSA is misleading, because it fails to mention important structural differences. Legitimate direct selling is NOT driven by huge rewards for recruiting an endless chain of recruitment of participants as primary customers. Even the last sentence is misleading, as legitimate direct selling companies in the DSA actually support DSA efforts to protect product-based pyramid schemes (MLMs). They support these predatory schemes by their silence and willingness to be included in the same association with them.</p>
<p>In some MLMs, including Amway, an active participant is called an "IBO" for "Independent Business Owner."</p>	<p>Participants in an MLM are not independent, as anyone who has sought to work with any other MLM while with an MLM like Amway can testify. It is not a business, unless one considers odds of success far below gambling a real business. And IBO's don't own anything, as anyone who tries to leave Amway and take their downline (that they spent years building) with them can testify. They don't even own the promised residual income because the high attrition rate assures them that they cannot count on those residuals.</p>
<p>Sure, many fail at MLM and leave the business, just like in any business. In fact, statistics show that 90-95% of all small businesses fail.</p>	<p>These kinds of statistics are bandied about by MLM defenders who supposedly have valid data to back them up. But they are way off on their statistics. Failure and loss rates for MLMs are not comparable with legitimate small businesses, which have been found to be profitable for 39% over the lifetime of the business; whereas less than 1% of MLM participants profit. Cumulatively, according to a study by the NFIB (Nat'l Federation of Independent Business) and reported by the SBA (Small Business Administration), 64.2% of businesses failed in a 10-year period.</p>
<p>"This MLM is not a pyramid scheme because you can make more than the people above you.</p>	<p>While there ay be instances where the income of someone at a lower level exceeds the income of some above them in the pyramid of participants, this does not negate the reality of top-weighted programs where the compensation plan rewards those who build large downlines at the expense of those beneath them. Those at or near the top get the lion's share of the rewards.</p>

Misrepresentations comparing MLM to the job market, or to the stock market and other investments – even gambling:

MLM misrepresentations	The truth
<p>"You can't count on an employer to offer any stability." MLM offers reliable, leveraged, long-term, permanent, residual income."</p>	<p>MLM is far more risky than the job market. There is no real security in MLM comparable to a typical employment arrangement, however unstable. With over 90% attrition within a few years, long-term residual income from recruiting a downline is a myth for new MLM recruits. (see Chapters 6 & 7)</p>

<p>Unlike dead-end jobs, MLM offers everyone an unlimited opportunity to earn what they want. With MLM, you are only limited by the time, effort, and money you put into it.</p>	<p>This is one of the biggest lies of MLM promoters. Think about it – an unlimited MLM income assumes an unlimited market, which does not exist. In fact, markets quickly become saturated, as fewer and fewer suckers can be found who have not been inundated with MLM offers, been burned by prior participation, or have family members who have been victimized.</p> <p>Perhaps even more important than time and effort is the willingness and skill to deceive prospective recruits into believing the same falsehoods you are being fed. And as a general rule, with MLM, the more you invest, the more you lose – with the exception of (1) the founders, (2) those who joined at the beginning of the endless chain of recruitment, and (3) TOPPs (Top-of-the-Pyramid Promoters), or “kingpins” - often all three of whom are the same persons.</p>
<p>People who “punch a time clock” working for someone else just “don’t get it.” By building a downline in a good MLM program, you’ll never have to work for someone else for the rest of your life.</p>	<p>I’ve heard this argument repeated over and over at MLM opportunity meetings. Careful analysis of average earnings data shows the falseness of this “easy money” claim by MLM promoters (see Chapter 7). And for those who choose not to do MLM, is there anything immoral about hard work for honest rewards?</p>
<p>Investing in this (MLM) business opportunity and then putting some time and effort into it to get it going is more like buying an annuity than investing in risky stocks or even a small business.</p>	<p>After investing in an annuity, one can – without effort – receive regular payments for a stated period of time, even for life in the case of lifetime annuities. But building and maintaining an MLM downline can be anything but trouble-free, except perhaps for the very few persons in the chain of recruitment.</p> <p>I have spoken with TOPPs who are constantly having to recruit to replace those dropping out, even traveling weekly to “opportunity” gathering in remote parts of the globe. They also spend enormous sums of money to display (or put on the appearance of) great wealth, living in large estates, driving luxury cars, being flown in private jets, etc.</p>
<p>According to statistics, about 90% of people retire at age 65 without significant savings, and half of them without any savings at all. This can be prevented by investing in a good MLM.</p> <p><i>(JT: I’ve seen statistics like these included in numerous presentations selling potential recruits on joining a particular MLM. The message follows with a pitch to “catch the wave” of a particular MLM that is growing rapidly, with the assumption that if you go with this MLM, you can be in a better position to retire comfortably.)</i></p>	<p>Any suggestion that MLM can boost one’s retirement is misleading if it is not accompanied with the warning that their odds of losing money over making a profit are at least 99 to 1, and their likelihood of profiting is less than one in a hundred, or 1%. Their likelihood of earning the substantial residual income that the promoters are suggesting is possible is so infinitesimally small as to be essentially zero – less than one in 25,000. (See Chapter 7.)</p>
<p>Come and “play the game” of network marketing with us. With a small investment and a little hard work at the outset, you never know what great things will come to you down the road. A few lucky breaks, such as recruiting a “heavy hitter,” you could be traveling the world or playing golf while the money keeps flowing in.</p>	<p>Our research shows that the game of network marketing, or MLM, is one with incredibly low odds of winning. In fact, MLM makes gambling look like a safe bet in comparison. The odds of winning from a single throw of the dice in a game of craps or betting on one number at the roulette wheel at Caesar’s Palace in Las Vegas are many times the odds of profiting in most MLMs.</p>
<p>The stock market is shaky. MLM offers more security and stability. .</p>	<p>Money invested in MLM is not any safer than a carefully planned long-term investment portfolio. As established in Chapter 6, 99% of those who invest in an MLM lose money.</p>

<p>A DSA spokesperson has stated: “Anyone who gets involved with a legitimate direct selling company should not risk financial loss by doing so. The Direct Selling Association’s Code of Ethics, for example, is designed to protect direct sellers and their customers. Inventory buybacks and other provisions allow sellers recourse if there’s an issue with the company - no one should lose money in direct selling . . .”³⁵</p>	<p>While the buyback provision is laudable, it is seldom exercised because participants have been encouraged to open and use their products, making the buyback option null and void. The DSA states that no one should lose money in direct selling - which we would assume means MLM – since there is no reason for anyone to lose much money in legitimate direct selling. (When I sold encyclopedias, I did not have to buy a set for myself.)</p> <p>But the facts are that at least 99% of participants DO lose money, based on careful analysis of average earnings statements of companies that produce them. (See Chapter 7.)</p>
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Misrepresentations regarding legality, regulation, and legitimacy of MLM:

MLM misrepresentations	The truth
<p>(on the assumption by FTC and other regulators that if an MLM were a pyramid scheme, it would soon saturate its market and collapse, as with classic, no-product pyramid schemes) Saturation just does not occur with MLM. Many MLMs have been around for over 40 years, and the market is far from saturated, with less than 1% of all sales nationally coming from the MLM industry.</p>	<p>The issue is not TOTAL saturation, but MARKET SATURATION. In a city of 100,000 people, the notion of 100,000 distributors to serve them is absurd. Perhaps the MARKET could be saturated with at most 5 or 10 distributors. Each added distributor would reduce the opportunity for existing distributors, and resistance would build up for those who have been approached several times. In fact, market saturation occurs rather quickly,</p>
<p>The market collapse predicted for MLMs never happens. Many MLMs have been around for over 40 years and are still going strong.</p>	<p>In MLM, market collapse is manifested in CONTINUOUS COLLAPSE, meaning that the market is constantly collapsing, requiring constant recruitment to replace those continually dropping out - with recruits willing to make “pay to play” purchases in hopes of cashing in. MLM leaders have learned other strategies for circumventing market collapse.³⁶ They find new markets in which to recruit, or recycle through old markets with new generations of prospects, or with new products. Without these efforts, an MLM could collapse fairly quickly.</p>
<p>The DSA Code of Ethics states: “Pyramid schemes are prohibited under the Code, ; thus companies operating pyramids are not permitted to be members of the DSA.”³⁷</p>	<p>Recruitment-driven MLMs (see chapter 2), make up a substantial portion of DSA membership. Extensive research shows that of all classes of pyramid schemes, what I call product-based pyramid schemes, or recruitment-driven MLMs, are the most extreme and harmful of all classes of pyramid schemes – by any measure – loss rates, aggregate losses, number of victims, etc. So this statement in the DSA Code of Ethics is a hollow, hypocritical, and misleading statement.</p>

³⁵ “Top 10 Myths & Facts about Direct Selling,” posted on Directselling411

³⁶ For a detailed discussion of these strategies, see “The 8 Rs of MLM Durability” in Chapter 3 of this book.

³⁷ DSA comments to the FTC on its proposed Business Opportunity Rule, 2006

<p>You don't need to worry about possible illegal actions because law enforcement officials from the FTC and all the states recognize MLM as a legitimate form of direct selling.</p>	<p>This is blatantly false, as there are laws and/or rules in place that could be a serious problem for virtually all MLMs if they were enforced. Examples from my recollection include laws against (1) endless chain selling schemes (California and Wisconsin), (2) schemes in which rewards are primarily from recruitment (which could include "pay to play" purchases) rather than sales of products to end users, (3) collecting commissions of (downline) sales for which the (upline) person made no contribution (Wyoming and Massachusetts), etc. And hundreds of MLMs are violating Section 5 of the FTC Code, which was written to protect against unfair and deceptive acts or practices.</p> <p>If FTC official were to read the preceding chapters and this one with an open mind, I believe it would be impossible for any of them to identify any business practice that is more unfair and more deceptive – and more viral and predatory – than MLM.</p>
<p>In seeking redress for victims of the Nu Skin program by our Utah State Division of Consumer Protection, I worked with over 20 ex-distributors for almost a year to get them to file a joint complaint. Even though aggregate losses totaled over \$250,000, they were fearful of the consequences of giving out their names in the complaint. When they finally were persuaded to join in this complaint, the agency wrote one letter on behalf of one of them and recovered about \$350 – out of \$250,000!</p> <p>The DSA has reported to the FTC: <i>"Very few complaints are filed against direct selling companies. DSA conducted a comprehensive review of complaints against all 193 active DSA member companies, as reported by local Better Business Bureaus. The data showed that on average there was only one complaint for every \$55 million in retail sales or one complaint for every 23,765 individual direct sellers per year. Of those complaints, 97 percent were resolved. The data further indicated that there were on average only 17 unresolved complaints per year. That calculates to one unresolved complaint for every \$1.76 billion in retail sales or one unresolved complaint for every 764,705 individual direct sellers. By any measure, this is an extraordinarily low level of consumer."</i>³⁸</p>	<p>What is not acknowledged here is that participants in all endless chain recruitment programs, like MLMs, rarely file complaints with law enforcement or with the BBB. This is because in an endless chain of recruitment, every major victim is also a perpetrator; i.e., they have had to recruit others to try to recover their investments in MLM products and services. Some of their recruits would be close friends and family, so they fear consequences from or to those close to them if they complain. There is also a strong element of self-incrimination, plus a sense of failure for not having properly "worked the system" as they were taught. This silence of victims is one of the most insidious features of MLM, providing built-in protection against government scrutiny for MLMs.</p> <p>It should also be noted that these DSA statistics were for all of its member companies. That means that data for MLM companies was mixed with data for legitimate direct selling companies, thereby skewing the results to make MLM look better than if the review of complaints focused on only MLMs.</p>
<p>The DSA Code of Ethics states: "Pyramid schemes are prohibited under the Code, ; thus companies operating pyramids are not permitted to be members of the DSA."³⁹</p>	<p>Recruitment-driven MLMs (see chapter 2), make up a substantial portion of DSA membership. Extensive research shows that of all classes of pyramid schemes, what I call product-based pyramid schemes, or recruitment-driven MLMs, are the most extreme and harmful of all classes of pyramid schemes – by any measure – loss rates, aggregate losses, number of victims, etc. So this statement in the DSA Code of Ethics is a hollow, hypocritical, and misleading statement.</p>

³⁸ DSA comments to the FTC on its proposed Business Opportunity Rule, 2006

³⁹ DSA comments to the FTC on its proposed Business Opportunity Rule, 2006

<p>“If not legal, our [MLM] program would have been shut down long ago.”</p> <p>“MLMs have survived many legal challenges. The fact that they are still around tells you they are legitimate.”</p>	<p>Consumer protection officials are typically reactive, not proactive. Since victims of endless chain schemes rarely file complaints, law enforcement seldom acts against even the worst MLM schemes. Victims don't complain because they blame themselves, and they fear self-incrimination or consequences from or to their upline or downline – often close friends and family. As Robert FitzPatrick observed:</p> <p><i>MLM is not defined and regulated in the way, for instance, franchising is. MLMs can be established without federal or state approval. There is no federal law specifically against pyramid schemes. Many state anti-pyramid statutes are vague or weak. State or federal regulation of MLM, when it does occur, usually involves, first, proving that the company is a pyramid scheme. This process can take years, and by then the damage to consumers is done. Indeed, even when MLM pyramids are shut down, often the promoters immediately set up new companies under new names and resume scamming the public.</i>⁴⁰</p>
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Misrepresentations regarding MLM products & services – product claims, prices, purchase quotas, stockpiling, investments in products and “tools for success,” etc.:

MLM misrepresentations	The truth
<p>Unlike the franchising opportunity, in which large amounts of money are at stake, <i>direct selling requires little or no up-front payment</i>. Individual direct sellers are able to return inventory and sales aids, training aids and the like; additionally, start-up costs are also refundable for a period of time upon cancellation by the salesperson.</p>	<p>The low signup fee is merely a ruse to deceive regulators who might be looking for large up-front fees that would trigger enforcement of “business opportunity” disclosure requirements in some states. Instead, MLM recruits are duped into investing piece meal through MLM compensation plans which include quota, or “pay to play” requirements in order to qualify for commissions or advancement in the scheme. These are usually purchased on a monthly subscription bases, often totaling hundreds, and sometimes thousands of dollars a year. The cancellation or buyback provision is seldom exercised because products must be returned in marketable (unopened) condition. Since new recruits are encouraged to open and use their products, rather than stockpiling them, few products can be returned.</p>
<p>Products can be resold at retail prices for a handsome profit</p>	<p>MLM products must be priced high enough to support a bloated network of distributors, so prices are seldom if ever competitive with alternative retail outlets. (See Chapter 4.) MLM products are sold primarily to recruits to “do the business,” rather than to persons outside the network of participants. People who shop around and are not buying products for the “opportunity” are not likely to become customers.</p>
<p>The demand for these MLM products is growing at a rapid rate. “They literally sell themselves.”</p>	<p>The sale of products is distributor-driven, not market driven. In spite of all the “outstanding products” hoopla, what is sold is the “opportunity,” not the products. New recruits soon learn that it is easier to buy than to sell – in order to meet their quota.</p>

⁴⁰ “Ten Myths of ‘Income Opportunity’ in Multi-level Marketing,” by Robert Fitzpatrick. Available from pyramidschemealert.org

<p>Participation in an illegal pyramid scheme requires a large, up-front investment, which is not required for participation in MLM.</p>	<p>New recruits must purchase products to “play the game,” i.e., to qualify for commissions and/ or advancement in the scheme.</p> <p>Also, no matter how high the quality of the products, investment in products for which you do not have orders in hand becomes a cleverly disguised means of laundering investments in a product-based pyramid scheme.</p>
<p>Our high quality products are less expensive than elsewhere when sold through MLM because they cut out the middleman.</p>	<p>MLM creates thousands of middlemen, with few real customers outside the network of “distributors” (or “consultants,” “demonstrators,” etc.) Due to a bloated hierarchy of participants, MLM products are very expensive and cannot compete with comparable products from alternate sources. And anyone who believes that MLM products are less expensive than comparable products elsewhere has not shopped around much.</p>
<p>You will be offering to persons you care about the very best products available for promoting their health and well being.</p>	<p>While some excellent products are available through MLMs, seldom are their claims backed up by valid research. In fact, the promotion of various nutritional supplements and miracle juice drinks is analogous to the “snake oil peddlers” of a century ago.</p>
<p>Our products are highly unique. It is virtually impossible to find anything comparable elsewhere.</p>	<p>MLM products are typically “pills, potions and lotions.” The secret formulas are a cover for the fact that they are priced too high to compete in standard markets. Products selected to be sold are unique so shoppers may find it difficult to compare prices with comparable shelf products.</p>
<p>Our products are consumable, which helps to guarantee repeat purchases by your customers.</p>	<p>MLM products are consumable, so participants can be lured into signing up for products on a monthly basis to meet their “pay to play” requirements. Of course, this helps to assure a consistent revenue base for the company.</p>
<p>MLM products may cost more for reasons of superior quality or service. The decision to sell a product through direct selling is often based on very specific factors. For example, products that require demonstration to convey the finer points of their operation are ideal for direct selling because a knowledgeable salesperson can personally conduct that demonstration for every customer.</p> <p>In a traditional retail setting, consumers might not understand the product’s unique qualities based on appearance or packaging. It’s true that some direct selling products are priced at the upper end of the retail market’s acceptance level, but there is higher acceptance based on the value-added incentive of the demonstration and personal service. Lexus brand cars are also at the upper end of the retail market acceptance level, but superior performance and service after the sale make that higher price reasonable. Each customer needs to weigh the price, quality and desirability of a given product and make a purchasing decision accordingly.</p>	<p>MLM products are pricey to satisfy not only costs of production and infrastructure, but also huge individual commissions for TOPPs, aggregate commissions for thousands of downline participants, and often substantial skimming by founders,</p> <p>And here again, no distinction is made between MLM and legitimate direct selling. In some cases, this position could make sense for the latter category. But just because a new strain of apples has blue stripes does not justify charging four or five times as much. MLMs promoters typically use the blue stripes type of rationale to justify products that could not compete with retail shelf products.</p>

<p>Like a franchise, with MLM you are in business for yourself, but not by yourself. And you have a proven program to assure your success if you follow our program</p>	<p>Franchises offer territorial protection, while with MLM you are recruiting your own competition. And if anything is proven about MLM, you are doomed to financial loss if you follow the lead of your upline – who want you to buy products and recruit others in an endless chain of recruitment. You are being sold a ticket on a flight that has already left the ground.</p>
<p>New recruits are protected from abuse because if they decide to leave the business, they can repurchase marketable inventory and sales aids purchased in the past 12 months for at least 90% of the purchase price.</p>	<p>New recruits are encouraged to immediately open and start using the products, not to stockpile them for the future. So if they decide they will not or cannot do “the business,” their products are not in marketable condition and will not be bought back. Also, our experience has been that few MLM dropouts understand that they have been scammed in time to exercise their buyback option. For one major MLM, the percentage of products returned was less than 4%, even though approx. 99.94% of participants lost money in the scheme.</p>
<p>A person can begin participation in legitimate direct selling opportunities with minimal start-up costs and little or no inventory investment. Even modest entry fees may be refundable if the new direct seller decides not to pursue the opportunity. Conversely, pyramid selling schemes often require high entry fees and/or substantial "investment" in inventory, and neither are refundable. This is because pyramid operators make their money from new recruits.⁴¹</p>	<p>The writer of this must not have studied many MLM compensation plans. The minimal sign-up fee is merely a ruse to mislead investigators. Nearly every MLM has some kind of arrangement for signing up for a monthly subscription of their “pills, potions, and lotions” – or whatever they use as products and services to maintain their revenue stream. Sure, new recruits can satisfy the minimum by selling to others, but it soon becomes apparent that it’s easier to buy than to sell – especially for products that are priced too high to compete with products on the shelves of retail stores.</p>
<p>Like a franchise, with MLM you are in business for yourself, but not by yourself. And you have a proven program to assure your success if you follow our program</p>	<p>Franchises offer territorial protection, while with MLM you are recruiting your own competition. And if anything is proven about MLM, you are doomed to financial loss if you follow the lead of your upline – who want you to buy products and recruit others in an endless chain of recruitment. You are being sold a ticket on a flight that has already left the ground.</p>
<p>MLMs are like franchises in that you have a proven system of success to follow – but without a huge initial franchise fee.</p>	<p>MLMs are not like franchises because you are not given a proven system of success to follow. Instead, you are given a system proven to lead to financial loss for almost everyone except the first ones in. And as mentioned above, typically MLMs bleed new recruits slowly of their funds by inducing them to buy products on a subscription basis, to pay for ongoing training, and otherwise draining them of their resources until they run out of money or give up.</p>
<p>Our “tools for success” are unbeatable. Sign up for our seminars and conferences, and buy our books and tapes to assure your success in this business.</p>	<p>In at least one major MLM, the “tools business” is a pyramid within a pyramid. Hardly anyone makes money selling products, so a lucrative source of income for those at the top is the sale of “success tools” to supposedly assure the success of their downline – who are in fact only further victimized when they buy these motivational items, only to increase their losses.</p>
<p>We have Dr. so-and-so as our vice-president of product development, and he has a whole team of qualified scientists and technicians working with him to assure that our products are the very best and safest on the market.</p>	<p>It should come as no surprise to anyone that scientists like to eat and enjoy the good things in life like everyone else. If they are offered enough money, top flight scientists, engineers, technicians, etc. can be found to add credibility to an MLM’s product line – no matter how good or questionable they may be.</p>

⁴¹ News & Views, American Chamber of Commerce in Croatia, *Direct Sales in Croatia Interview: U. S. Ambassador Robert A. Bradtke* (2009, Issue 3 - http://www.amcham.hr/_dwnls/newsviews/nv_0209.pdf)

<p>We have strict rules in place against purchasing and stockpiling large quantities of products just to qualify for commissions or advancement up the various levels in the compensation plan. In other words, you are not allowed to “buy your way up” to higher levels in the program.</p>	<p>While such rules in an MLM’s Policies and Procedures manual may be laudable, they are often in direct conflict with their compensation plans, which reward ascending levels of purchases and recruitment. As explained in Chapter 2, psychologists have proven that rewards drive behavior. Forced to choose between seeking rewards for buying more and more products (since it’s much easier to buy than to sell overpriced products) and complying with a rule that is seldom enforced, participants often choose the former.</p>
<p>We require that our distributors have proof of monthly sales to at least ten customers who are not enrolled as distributors in the plan. This assures that distributors comply with our “retail rules” which in turn assure that we are in compliance with FTC guidelines.</p>	<p>Such rules have never essentially been ignored by MLMs, including Amway (Quixtar), the company that escaped pyramid allegations on the grounds that it had and enforced its “retail rules.” They have never been consistently enforced, either by Amway or by the FTC.</p>
<p>These products* can give your greater vitality, can protect you from disease, and can keep you young longer.</p> <p>*Typically “pills, potions, and lotions”</p>	<p>According to Dr. Stephen Barrett of Quackwatch and MLMwatch.org: <i>Every company I have looked at has done at least one of the following.</i></p> <ul style="list-style-type: none"> • <i>Made misleading statements that could frighten people into taking dietary supplements they do not need.</i> • <i>Made misleading statements of product superiority that could induce people to buy products that retail stores sell more cheaply.</i> • <i>Made unsubstantiated claims that their products would prevent or remedy health problems</i> • <i>Uses research findings to promote products without noting that the findings are not sufficient to substantiate using the products.</i> • <i>Uses deception by omission by making statements about the biochemical properties of various substances without placing them in proper perspective. An example would be stating that a certain nutrient is important because it does this or that in the body but omitting that people who eat sensibly have no valid reason to take a supplement.</i> • <i>Exaggerated the probability of making significant income.</i>⁴²

Misrepresentations regarding MLM as a “business opportunity” and the importance of timing to take full advantage of it:

<p>MLM misrepresentations</p>	<p>The truth</p>
<p>Take advantage of “momentum” and “windows of opportunity.”</p>	<p>This kind of appeal has been used for over thirty years. In any endless chain scheme, the momentum cannot continue indefinitely, leaving those who come in later in a losing position, which is approximately 99% of recruits.</p>

⁴² “The Mirage of Multi-level Marketing,” by Stephen Barrett, MD, published on MLM Watch at mlmwatch.org

<p>An MLM is not presented to prospects as a direct selling or as a pyramid/chain selling program, but as a “business opportunity.”</p>	<p>Promoters are careful to refer to an MLM as “direct selling” when communicating to regulators; they do not want to trigger state regulations regarding business opportunities. However, they often label it as a “business opportunity” with “passive income potential” to prospects because many people really do not want to sell. But MLM is no more a business opportunity than gambling. In fact, the odds of profiting are far greater for most games of chance in Las Vegas than in MLM.</p>
<p>MLM is a business offering better opportunities for making large sums of money – more than all other conventional sales and business opportunities.</p>	<p>For almost everyone who buys into an MLM program, it turns out to be a losing financial proposition. This is not an opinion, but a historical fact. For example, in the largest of all MLMs, Amway, only 1/2 of one percent of “active” distributors make it to the basic level of “direct” distributor, and the average income of Amway distributors (not including dropouts) is about \$40 a month. That is gross income before taxes and expenses. When “pay to play” purchases and operating expenses are subtracted, it is obvious that nearly all suffer a loss. Even making it to “direct distributor” in Amway, is not a ticket to profitability. When the Wisconsin Attorney General filed charges against Amway in the 80’s, tax returns were gathered from all distributors in the state. It was found that “direct” distributors (approx. the top 1% of distributors) in Wisconsin suffered an average net loss of \$918! And in all of the hundreds of MLMs I have studied, the founders and a few at the top of their pyramids of participants are enriched at the expense of a multitude of downline participants, approximately 99% of whom lose money.</p>
<p>Join our program in its pre-launch kickoff phase (or entry into a new market or product division, etc.) and establish your position now. Get in on the ground floor now. You can thereby take advantage of this virgin market and experience explosive growth.</p>	<p>It has become customary for new MLM startups to announce a pre-launch kickoff, stressing the importance of getting in early to get your place established before others. The implications are that those who get in early have a huge advantage over those who come in later. Of course, they are right. In any endless chain recruitment program, whether it be a chain letter, naked pyramid scheme, or MLM (a.k.a. product-based pyramid scheme), the pay plans favor early entrants.</p> <p>This “establish your position now” invitation is about as blatant an admission that the MLM is a pyramid scheme as you can find. It is an acknowledgement that market saturation happens quickly and that early entrants have a decided advantage over those who come in later. MLMs with their endless chain of recruitment assume both infinite and virgin markets - neither of which exists. They are therefore inherently flawed, deceptive, and profitable only for founders and a few early entrants or those placed at or near the top of the pyramid in the compensation plan.</p> <p>When the founders of any MLM announce a pre-launch or early signup opportunity, they are out to get your money. You are being sold a ticket on a flight that has already left the ground.</p>

<p>MLM is destined to be a major player in the distribution of goods and services in the future. Eventually most products will be sold by MLM, a relatively new form of marketing. Many retail stores, shopping malls, catalogues and most forms of advertising will be rendered obsolete by MLM. Why advertise, when word-of-mouth advertising works so much better?</p>	<p>This is an old argument for getting on board with “network marketing.” The fact that less than 1% of all sales nationally are made through MLM, after over 30 years of promising to be a major player, should tell you something.</p> <p>Robert FitzPatrick offers this insightful comment: <i>“MLM . . . has been around since the late 1960's. Yet, today it still represents less than one percent of US retail sales. In year 2000, total US retail sales were \$3.232 trillion, according to the Dept. of Commerce. In that time, MLM's total sales were about \$10 billion. That is about 1/3rd of one percent to annual retail sales, and most of this sales volume is accounted for by the purchases of hopeful new distributors who are actually paying the price of admission to a business they will soon abandon. Not only are MLM sales insignificant in the marketplace, but MLM fails as a sales model also on the other key factor – maintaining customers. Most MLM customers quit buying the goods as soon as they quit seeking the "business opportunity." There is no brand loyalty [after quitting].</i></p> <p><i>These basic facts show that, as a marketing model, MLM is not replacing existing forms of marketing. It does not legitimately compete with other marketing approaches at all. Rather, MLM represents a new investment scheme that uses the language of marketing and sales of products. Its real products are distributorships which are sold with misrepresentation and exaggerated promises of income. People are buying products in order to secure positions on the sales pyramid. The possibility is always held out that you may become rich if not from your own efforts then from some unknown person who might join your 'downline,' the 'big fish' as they are called.”⁴³</i></p>
<p>The economy is not looking good for businesses and for those struggling to find work – or just to survive. But MLMs are growing and profiting. Liquidate what you have and invest in MLM, so that you can regain control of your finances, along with others who have found this savior of their financial well-being.</p>	<p>Don't be fooled. Opportunity scams thrive during times of fear and uncertainty. This is because many people are desperate and will grasp at anything that offers hope, no matter how phony. As Chapter 7 clearly shows, you will not improve your situation by participating in MLM, but are much more likely to fall further behind, especially if you borrow on your credit cards to invest in the products and services necessary to “do the business.”</p>
<p>To require “direct sellers” (MLM participants) to disclose average income, a list of references, criminal background of founders, etc. would be an “intolerable burden” for persons who are working from home – with limited resources, trying to make ends meet, etc.</p>	<p>Providing prospects with a one-page disclosure document prepared by the company is nothing compared to the Franchise Disclosure Document that the FTC requires franchisors to give to prospective franchisees before they can sell a franchise. This deceptive argument was actually accepted by FTC officials in its revised proposed Business Opportunity rule.</p>

⁴³ “Ten Myths of ‘Income Opportunity’ in Multi-level Marketing,” by Robert Fitzpatrick. Available from pyramidschemealert.org

Misrepresentations regarding emphasis on recruitment over selling to non-participants – and on the recruitment process itself:

MLM misrepresentations	The truth
<p>We are not in the business of recruitment. We in the MLM field don't earn a dime unless we sell products. Our signup fees are nominal (usually less than \$50), with almost no profit made from selling a simple startup kit. Of course, many who sign up love the products and go on to build a business of their own.</p>	<p>The DSA is on record as stating: "One thing all firms regardless of structure or compensation plan have in common is the continuing need to recruit new salespeople to their organizations. Recruiting is the lifeblood of the industry. ." ⁴⁴</p>
<p>Build your business by duplication. Buy five of these "business in a box" packages now, sell them to five people, and ask each to do the same, etc. Be a "product of the products" by signing up for monthly shipment of these items. Soon you will be reaping huge commission checks.</p>	<p>This is how recruitment-driven MLMs earn fortunes for their top recruiters. Commissions from initial and ongoing purchases by new "distributors" (in hopes of profiting) is the life blood of their business. The promised rewards never come, except to those who recruit their way to the top of a pyramid of participants. Take away the "opportunity" inducements for participant purchases, and these companies would fall like a house of cards.</p>
<p>Fear of loss (of potential income by not recruiting aggressively) is a great motivator.</p>	<p>If MLM participants understood what was happening to them, they would fear accumulating further losses by continuing to invest in the MLM. The truly lucky ones are those who refused to buy what their recruiters pressured them to buy – or got out as soon as they suspected the "business" was not a legitimate business.</p>
<p>You will be helping your friends and family, as well as work and church associates, by offering them the opportunity to join your team (i.e., recruiting them into your downline)</p>	<p>For potential personal gain, you are exploiting those you care about the most. In other words you are squandering your social capital. You may even antagonize and drive away those nearest and dearest to you. A business that incentivizes you to deceive and exploit friends and family – and anyone else for that matter – for personal gain could be considered immoral or unethical.</p>
<p>.. . Recruiting is not a requirement for individual success in direct selling, and compensation must always be based on the sale of products and services – whether your own sales or the sales made by your recruits. Consider the following: Thirty-four percent of direct sellers do not earn money from the sales of others, but just from their own personal sales. ⁴⁵ And what about those customers? It is true that most direct sellers are also consumers of the products and services they sell – for many they got involved after having already used the products, and some get involved just to buy those products at a discount. ⁴⁶</p>	<p>Every one of the hundreds of MLM compensation plans I've studied (with the possible exception of some party plans) clearly rewards recruiting far more than retailing so much so that anyone who understands the escalating incentives to build a larger and larger downline would not waste time trying to sell products to non-participants. And I would bet that the "34% of direct sellers [who] do not earn money from the sales of others" includes some non-MLM direct sellers. This is a common deception used by the DSA – to lump MLM with legitimate direct sellers for statistical purposes to make them look better than they are.</p> <p>As far as recruits' getting involved just to buy at a discount, our pricing studies show that even at wholesale, MLM products are not competitively priced to compete with shelf items.</p>

⁴⁴ DSA Comments to the FTC on its proposed Business Opportunity Rule, 2006

⁴⁵ 1999 National Salesforce Survey, MORPACE International, Inc. (Quoted in *Direct Selling* 411)

⁴⁶ Source: 2004 General Public Attitudes Toward Direct Selling, Burke, Inc.

<p>All you have to do to be really successful in this (MLM) business is to recruit a few good ‘business builders’ who are motivated to build a business, and they will build your downline – along with a handsome income – for you. Given the right business builders in your downline, you’ll never have to work again.</p>	<p>The search for “business builders” is really a search for aggressive recruiters in a recruitment-driven product-based pyramid scheme. Given a good understanding of the difference between a product-based pyramid scheme and a legitimate direct selling program, this is tantamount to an admission that one is conducting a product-based pyramid scheme. (See chapters 2 and 5.)</p>
<p>Dr. So-and-so is using the products on his patients who are experiencing great results. Many of them have gone on to build their own business with his help. He certainly wouldn’t lie to us.</p>	<p>Unfortunately, some health professionals are using their position to sell MLM health products to their patients and to recruit and train them in helping to build a “team of health-conscious” participants. These professionals are crossing some ethical boundaries which can lead to some highly unprofessional behavior, as well as to substantial losses. One young doctor lost over \$250,000, and she was instrumental in causing losses suffered by patients and numerous colleagues.</p>
<p>Do your due diligence before you make a decision on joining our program. Here are some materials that will help you make the right decision. Also, you will want to come to this meeting to hear Mr. Gotrocks because he had the same concerns you did before he started and now he’s a Diamond, drives a Mercedes, etc.</p>	<p>By “due diligence,” the recruiter means that you should read the MLM’s promotional materials and listen to the speeches of one of the TOPPs at an emotionally charged opportunity rally of true believers. But whatever you do, don’t do a Google search for MLM scams or negative information on this particular company.</p>
<p>Don’t give up your day job just yet. Just spend a few hours a week building your business, and you will soon be able to kiss that cursed job goodbye.</p>	<p>Here is an appeal to security needs. The thought of building a side business that will replace a job you may hate or that pays poorly or that requires a long daily commute, etc. can be very appealing. But keeping the job to pay bills while pursuing the MLM dream makes some sense. However, sooner or later, the new recruit becomes sucked into a continual round of incentivized purchases of products, paid company events, “tools for success,” etc. Savings may be liquidated or credit card balances heightened before the person can’t continue or finally decides to quit. Of course, the promised ability to quit their job as their financial situation improves never happens.</p>
<p>You may know someone who had a bad experience in MLM, or had a bad experience yourself. But THIS one is different. No other MLM has products that can compete with these, and people are improving their lives by using it. The compensation plan is more generous and fair than the others. Those who get on board with this program now are going to make a killing.</p>	<p>This acknowledgement that other MLMs have not worked can sometimes disarm the resistance of prospects who don’t have a favorable impression of MLM. However, though each MLM may have some unique features, few people have the sophistication to identify the features in the compensation plan that assure the money goes mostly to TOPPs and that the company coffers are enriched at the expense of a continual supply of new recruits who buy products to attempt to move forward, only to quit and be replaced by others who are similarly misled.</p>
<p><i>Traditional network marketing is now obsolete and we will show you the only profitable way a network marketing business can and should be built.</i> <i>Forget everything you have ever been told about MLM. Throw out your “phone verified” leads, cheesy corporate marketing manuals, expensive advertising co-ops, pay per click leads, “fully automated systems”, genealogy lists, motivational cds, all of it.</i> <i>This won’t make me popular with the big MLM corporate executives who have no idea what the average distributor goes through in trying to build their</i></p>	<p>I am not going to comment on all the hype and deceptions contained in this invitation, but it is a classic example of the many invitations on the web to join or buy into a program that will correct all the problems with MLM. The most important concept that’s missing in this criticism of the industry and the author’s solution to it is that MLM is an INHERENTLY FLAWED ENDLESS CHAIN RECRUITMENT SYSTEM, and no lead system, miracle products, or improved compensation plan will correct it (although</p>

<p>business.</p> <p><i>I don't care. Millions of people join a home business and have no idea that they're being lied to.</i></p> <p><i>I'm going to give you 100% FREE information on how to build a massive MLM business that will rock your world.</i></p> <p><i>You will be so completely blown away by what you learn, I believe it will be a life changing moment. Why? Because you will be able to immediately implement what I tell you, without spending any money, and within 1 hour from now, you will generate results you never thought were even possible.</i></p> <p><i>It doesn't require any skill, talent, money, or motivation. Try what I say, for free. And you will realize that you just found a way to build a massive, lucrative online business.</i></p> <p><i>Every single failure in MLM is caused by one problem and one problem only. And all of the lame training, audios, videos, marketing manuals, industry gurus, and rah rah seminars are attempts to get you to overcome this one problem.</i></p> <p><i>Obviously and unfortunately, it doesn't work for 99% of the people.</i></p> <p><i>I am are not going to show you how to overcome this problem like everyone else. For the first time ever in this industry, we have eliminated the problem.</i></p> <p><i>We have eliminated the one problem that causes every single failure in this business. And we are the ONLY company that has ever done this. Building a business for yourself and everyone in your entire organization has now become easy.</i></p> <p><i>You will be able to immediately implement this new approach, for free. This information is so powerful, within one hour, you will start generating massive results that will dwarf every business accomplishment you have ever made in the past and will dwarf even what you thought was possible.</i></p> <p><i>Finally, your wildest dreams of what is possible are about to become true. Just fill out the form below.⁴⁷</i></p>	<p>it may be possible to ameliorate some of its effects. For example, not paying commissions on downline sales, but only on sales to non-participants, would give it less of a pyramidal recruitment emphasis.)</p>
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Misrepresentations regarding MLM compensation plans and promised or actual income from MLM participation:

MLM misrepresentations	The truth
MLM is like insurance, investing, inventing, acting, and writing in that hard work at the outset yields residual income for the rest of your life. This is done be "leveraging" the efforts of your downline – so you can retire early, travel, etc.	The odds of success in MLM is more like gambling than legitimate residual income. It appeals to the "something for nothing" mentality. A kind of MLM addiction has been observed in some "true believers." The large residual incomes reported are as much the result of time of entry and willingness to deceive prospective recruits as of payoff for hard work. To succeed in MLM, one must leverage one's deceptive recruiting through others who can be persuaded to do the same.
Standard jobs are not rewarded fairly. In MLM, you can set your own standard for earnings.	Fair? Most MLM compensation plans are weighted heavily towards those who got in early or scrambled to get to the top of a pyramid of participants. MLM is the epitome of an unfair and deceptive practice.

⁴⁷ "MLM Lies Exposed," at - mlmliesexposed.com/

<p>Average earnings statements on official reports make MLMs appear highly profitable for participants. For example, one MLM company report of “actual income” of distributors may state that “.16% of active distributors have achieved the level of Blue Diamond,” whose average earnings exceed \$500,000 a year. This is made to appear to be respectable odds of success.</p>	<p>This is a mathematical trick MLM promoters play on unsophisticated recruits. MLM reports of average income of participants are full of such deceptions. When statistics are presented without deception, the “opportunity” is not so attractive. The “.16%” is 0.16% – or 0.0016 (dropping the % symbol). This is equivalent to odds of one in 625. And for statistical integrity, ALL who signed up as distributors should be factored in, but MLMs eliminate dropouts in their statistics – a huge deception. With less than 10% remaining after five years (the minimum time those at the top in the pyramid have been in the scheme), the number should be reduced by at least 90%. This leaves odds of 0.00016 of reaching the top level where the money is made, or odds of 1 in 6,250! This looks far worse than <u>“.16%”</u>⁴⁸</p>
<p>“Anyone can do this” (i.e., earn a very large residual income like these top participants we are showing off that come to opportunity meetings in their Hummers and luxury cars.).</p>	<p>Holding up top earners as examples of what others can do is deceptive. It is unfair to sell tickets on a flight after the airplane has already left the ground.</p>
<p>Company payout to participants is reported as “earnings” to them.</p>	<p>The fact is that every MLM requires “pay-to-play” or a quota of minimum purchases in order to qualify for commissions and/or advancement in the scheme. In addition, in order to climb the ladder in the hierarchy of distributors to a level where actual profits are realized, one must recruit aggressively.</p> <p>In a one-year test of the cost of conducting a successful recruitment campaign, I found the operating expenses to be significant (over \$25,000 in today’s dollars) – just like for any recruitment-oriented business. The combination of “pay-to-play” and operating expenses raises the breakeven bar such that it is extremely rare for any MLM recruit to actually earn a profit after subtracting such expenses. Read Chapter 7.</p>
<p>Legitimate direct selling companies are very careful to represent earning potential accurately. The DSA Code of Ethics requires companies and their sales force members to provide potential independent sellers with accurate information about the company’s pay structure, products and sales methods.⁴⁹</p>	<p>Out of hundreds of MLMs I have analyzed, I have never seen earning potential or average earnings represented honestly. All published company reports of average earnings of MLM participants leave out attrition, or those who dropped out, as well as money paid in to the company for incentivized products and services, not to mention minimal operating expenses common to all recruitment-focused MLMs.</p>
<p>Here is our “Executive Summary” of information on this unprecedented decision. Note what you can make by following this “proven success program.”</p>	<p>Projections of income based on calculated extension of formulas embedded in the compensation plan are seldom balanced with a discussion of the abysmal odds of getting to the levels where such high levels of commissions are possible. If less than 1 in 25,000 achieve that goal, and those are mostly persons who got in at the beginning of the recruitment chain, is it fair to present it as a real possibility? Again, new recruits are being sold tickets to flights that have already left the ground.</p>

⁴⁸ See the book “How to Lie with Statistics.”

⁴⁹ Direct Selling 911 web site

<p>People choose to get involved in direct selling for a variety of reasons. Some hope to make it a full-time career, but most sign up to either earn a little extra money or to receive a discount on their own purchases.⁵⁰</p>	<p>The last two reasons given are manifestly false. Of the hundreds of compensation plans I have personally analyzed, none have offered sufficient payout to cover incentivized purchases, not even including minimum operating expenses. It would be extremely rare for any MLM participant without a huge downline (which requires enormous time and resources) to report a profit on their income taxes – especially if they counted products they purchased that they would not have purchased except to meet quota requirements for commissions or advancement. It would also be a very gullible person to pay the inflated prices for overhyped products, such as health products (“pills, potions, and lotions”), Internet services, or travel services.</p>
<p>When considering the dropout rate, one also has to consider direct sellers who get involved for several months each year to earn extra money for family vacations, holiday gifts or other seasonal purchases. These sellers don’t “drop out” because they weren’t successful, they drop out because they achieved their goal and don’t choose to sell all year. For many, they’ll join again the next year and drop out just the same.</p>	<p>Since MLM compensation plans primarily reward downline recruitment, and one cannot maintain resultant “residual income” on a seasonal basis, this is an empty promise – about as empty as they come.⁵¹</p>
<p>In most MLM reports of average income of participants, gross commissions is reported as though it is net income. Never are the incentivized purchases and other products from the company subtracted when calculating average income. The spokesmen and bean counters in the MLM company claim they cannot determine what participants have spent on operating expenses.</p>	<p>In many cases, even participants at fairly high levels in the pay plan are losing money – or at least not reporting an income on their taxes. (See report on preparers of Utah tax returns in Chapter 6.) In any case, a simple formula of money in versus money out (money paid to participants subtracted from money paid into the company by participants) would reveal an alarmingly high loss rate – made even worse when all expenses are subtracted.</p>
<p>Legitimate direct selling opportunities offer the flexibility to set your own goals and achieve them on your own terms.⁵²</p>	<p>MLM participants (unlike legitimate direct sellers) can set their own goals, but not on their own terms. They must conform to a rigid compensation plan and often a very restrictive “policy and procedures” document.</p>
<p>“More than half of direct sellers report that their net income from direct selling, after taxes and expenses, is positive.”⁵³</p>	<p>Based on tax studies and analysis of all of the MLMs for which I have been able to obtain data on average earnings, this DSA statement is blatantly false. I can only assume that the research that was sponsored by the DSA⁵⁴ was mixing non-MLM data with MLM data – common technique used by the DSA to make the numbers look acceptable.</p>
<p>Over 13.6 million individuals sold for direct selling companies as independent contractors with estimated retail sales of \$29 billion in 2004.⁵⁵</p>	<p>Very misleading. My calculator tells me that this would mean participants average retail sales was \$2,132.35 each for the year. Considering the fact that MLM product prices are not competitive (See Chapter 4) and that compensation plans are so top heavy that there is almost no incentive to sell to non-participants, they must be including sales to downline participants as retail sales.</p>
<p>The “passive income” of successful MLM</p>	<p>The royalties coming from intellectual properties such</p>

⁵⁰ Direct Selling 911 web site

⁵¹ See Chapter 6

⁵² Direct Selling 911 web site

⁵³ Direct Selling 911 web site

⁵⁴ 2002 National Salesforce Survey, Research International, Inc.)

⁵⁵ Direct Selling 911 web site (DSA 2005 Growth and Outlook Survey.)

business builders is like that of a very successful author or inventor, yielding royalties or “residual income” forever without having to put forth any additional effort.	as inventions or books is totally passive, once the work is done, except for a few speaking tours and interviews, etc. But with MLM, the work is anything but passive. One’s downline must be carefully tended and encouraged to buy products and recruit others to do the same – often with aggressive and expensive recruitment campaigns to replace those who are dropping out at a rapid pace.
The income stream you establish from building your (downline) business can be willed or passed on to your heirs, leaving them with a substantial fortune, or at least a residual income that will greatly improve their lives.	This is a pipe dream for all but a handful of TOPPs (top-of-the-pyramid promoters) who are in the driver’s seat of a large MLM. But even then, without constant tending and recruitment, the downline can unravel rather quickly as 99% of participants eventually drop out. Unless your heirs are as aggressive as you at recruitment and “playing the game,” they may wind up having to work for a living. This is not the worst thing that could happen to them.
Our MLM has an unprecedented compensation plan that is far more fair and liberal in its payout than those of other MLMs.	Out of hundreds of MLM compensation plans I have analyzed, all have the same five commonalities that cause extremely high loss rates and that clearly separate them from legitimate selling or small business opportunities. Such claims are pure hype for an independent analyst experienced in scrutinizing product-based pyramid schemes. (See Chapter 2.)
Here is our “Executive Summary” of information on this unprecedented decision. Note what you can make by following this “proven success program.”	Projections of income based on calculated extension of formulas embedded in the compensation plan are seldom balanced with a discussion of the abysmal odds of getting to the levels where such high levels of commissions are possible. If less than 1 in 25,000 achieve that goal, and those are mostly persons who got in at the beginning of the recruitment chain, is it fair to present it as a real possibility? Again, new recruits are being sold tickets to flights that have already left the ground.

Misrepresentations regarding success and failure, or retention and attrition (dropout) rates among MLM participants:

MLM misrepresentations	The truth
Turnover, as in any business, is a reality that assures an ample supply of available prospects.	Again, with few real customers, MLM products are sold by recruiting a revolving door of new “distributors” who buy products to “do the business.” And since people perceive the opportunity as dwindling with each new “distributor,” market saturation requires promoters to recruit elsewhere. So MLMs quickly evolve into Ponzi schemes, requiring the opening of new markets in foreign countries and/or new product divisions to repay earlier investors, as has happened with Amway (now Quixtar) and Nu Skin (which became IDN, then Big Planet and Pharmanex). It’s not turnover as in a normal business, but continuous churning of new recruits to replace dropouts.
If you fail at this program, it is because you failed	The system itself dooms nearly all participants to

to properly “work the system.”	failure. MLM is built on an endless chain of recruitment of participants as primary customers. It assumes both infinite markets and virgin markets, neither of which exist. It is therefore inherently flawed, fraudulent, and profitable only for founders and those at or near the top of their respective pyramids of participants. Even with their best efforts, the vast majority will always lose money. ⁵⁶
“In any business, one must invest time and money to be successful.” Like anything else, you can expect to get out of it what you put into it.	Independent research, supported by worldwide feedback, suggests that the more a person invests in an MLM in time, effort, and money, the more he/she loses – which is true of any scam. Committed MLM participants may continue investing thousands, and even tens of thousands of dollars, over many years before running out of money or giving up. Conversely, in legitimate companies, sales persons are not expected to stock up on inventory or subscribe to monthly purchases. But in MLM, incentivized purchases (required to participate in commissions and/or advancement) are merely disguised or laundered investments in a pyramid scheme
“It takes time to build any business.” “This is not a get-rich-quick scheme, but a ‘get-rich-slow’ program.” “While the potential rewards are great, don’t expect instant success,” etc.	MLM promoters sell recruits on their programs as a business opportunity that takes time to build, but to get around state regulations on the sale of business opportunities, they present it to authorities as a “direct selling” opportunity (see above). However, In legitimate direct sales programs, sales persons earn commissions right away and don’t have to wait months or years for commissions to exceed expenses
<i>This myth [that approximately 99.9% of direct sellers lose money] is also quite interesting because it essentially asserts that 15.2 million people in the US and 60 million people around the world continue as direct sellers despite losing money. Are we to believe the 5% of the US population would continue in a business where they are losing money? Simply put, most people do not lose money in direct selling. Neither the facts nor common sense supports that theory.</i> ⁵⁷	Again, the DSA mixes data from MLM participation with legitimate direct selling. And we who advocate for consumers have observed a strong tendency for people who have “drunk the Kool-aid” of MLM to keep trying to make their MLM business work for them or will jump from one MLM to another in hopes of finding the right MLM for them - one that pays fairly and generously for their Herculean efforts to build a downline. I have communicated with victims of MLMs that have strung them along with empty promises for ten or twenty years, only to fall further and further behind financially.
A DSA spokespersons declared: “No one should feel like a failure if it [MLM participation] doesn’t work out for them.” ⁵⁸	When a person has knocked themselves out and lost his or her life savings (or maxed out their credit cards) as a result of having been taught that if they “work the system” correctly, their success is guaranteed, it seems rather hollow to suggest that they should not feel like a failure. If not them, then who is to blame? Could it be - - - the SYSTEM???
Turnover, as in any business, is a reality that	Again, with few real customers, MLM products are sold

⁵⁶ See Chapter 7.

⁵⁷ Quoted in DS411

⁵⁸ “Top 10 Myths & Facts about Direct Selling” posted on the directselling411 web site.

<p>assures an ample supply of available prospects.</p>	<p>by recruiting a revolving door of new “distributors” who buy products to “do the business.” And since people perceive the opportunity as dwindling with each new “distributor,” market saturation requires promoters to recruit elsewhere.</p> <p>So MLMs quickly evolve into Ponzi schemes, requiring the opening of new markets in foreign countries and/or new product divisions to repay earlier investors, as has happened with Amway (now Quixtar) and Nu Skin (which became IDN, then Big Planet and Pharmanex). It’s not turnover as in a normal business, but continuous churning of new recruits to replace dropouts.</p>
<p>If you don’t succeed, it is because you don’t really BELIEVE in our system and what it can do for you. Your attitude is all important - you attract what you really believe in. Think success, and you will be successful.</p>	<p>This idea that our success is determined by our attitude or belief system is a nice platitude and does have some applications, but only when doing something that has validity. This reminds me of the film “Believe,” which is a mockumentary about Amway-style MLM programs. Those at the bottom of the pyramid are “Believers,” and those at the top are “Supreme Believers.”</p>
<p><i>Reports of high MLM dropout rates are exaggerated. Nearly four in five (78%) direct sellers who are in direct selling for less than a year report that they are very or extremely likely to continue as a direct seller in the future. In addition, in a survey of former direct sellers, only 34% of them had a tenure in direct selling of less than one year at the time they dropped out from direct selling.⁵⁹</i></p>	<p>It appears the DSA is using a prestigious survey research firm to get the results they want by furnishing data that lumps MLM participation with legitimate direct selling.</p>
<p>“MLM has a 97% fail rate.” “Only 5% of people make any money in MLM.” “Only 10% of those who do network marketing achieve their goals.”</p>	<p>These kinds of statistics are thrown out all over the Internet and cited at MLM opportunity meetings” Almost none of them have any serious research to back up their figures. The reason this is important issue is that the inverse of loss rate is success rate. Actually, the loss rate is far worse than even MLM insiders suspect or admit to. Those of us independent researchers who have obtained actual average earnings reports and other data from the MLM companies agree that the loss rate falls in the range of from 99% to 99.99%, depending on the company.</p>
<p>The high turnover in MLM can be compared to high turnover among retail sales persons.</p>	<p>Robert FitzPatrick of Pyramid Scheme Alert recently wrote:</p> <p><i>For attrition rates, you may find DSA's latest statement of interest. They state that the average turnover rate in MLM is over 50%, but then go on to compare that number with turnover rates in the traditional "retail" sales industry.</i></p> <p><i>This, as we would expect, is spurious. Retail sales in stores is seasonal and, by design, part time. And, as you work, you actually get paid so there is no relation to the attrition rate in real retail sales and financial loss. And you are not required or even induced to buy the goods in the store as part of your pay plan. Finally, MLMs should not be compared to retail sales at all, since few MLMers ever retail anything anyway.</i></p>

⁵⁹ 1997 Survey of Attitudes Toward Direct Selling, Wirthlin Worldwide. Quoted on DirectSelling 411 web site.

	<p><i>Since MLM is not sales work, but pyramid recruiting, it has no counterpart in the real world or work or employment.⁶⁰</i></p>
<p><i>More than half of direct sellers report that their net income from direct selling, after taxes and expenses, is positive. In addition, a positive net income is reported by nearly half of new direct sellers — those representing their current company for less than a year — and by nearly half of direct sellers who say that they are not very likely or not at all likely to continue in direct selling in the future. In addition, research shows the following:</i></p> <ul style="list-style-type: none"> • <i>four in five (82%) direct sellers have been with their current direct selling company for one year or more, and 47% for five years or more.</i> • <i>89% of direct sellers rate their personal experience in direct selling as excellent, very good, or good.</i> • <i>84% of direct sellers say that direct selling meets or exceeds their expectations as a good way to supplement their income or as a way to make a little extra money for themselves.</i> • <i>91% of direct sellers say that direct selling meets or exceeds their expectations as a business where the harder they work the more money they can make.^{61 62}</i> 	<p>These statistics are skewed in MLMs favor by mixing legitimate direct selling with MLM and using selection criteria for responses that fail to bring out negative responses, such as we consumer advocates receive frequently from victims worldwide. We know that approximately 99.8% (calculated from our latest data) of direct sellers lose money, so such glowing statistics of widespread participant satisfaction should make a sophisticated analyst want to see the details of the study to see how the data sample was manipulated. (See Chapters 6 and 7.)</p>

Misrepresentations about the personal benefits of MLM – time freedom, improved lifestyle, supportive associates, opportunity to help others, etc.:

MLM misrepresentations	The truth
MLM allows you to use your natural talents in ways that cannot be found in any other business activity.	Your talents can be better utilized building and promoting any honest business.
In MLM, you can be the master of your destiny.	You will be a slave to the phone, to meeting the qualifications for commissions and bonuses, and to continual pressure to recruit new participants to replace dropouts. You are also caught in a money trap of hyper-consumption.
In MLM, you can't make money without helping others succeed.	In truth, you make money by deceiving others, by recruiting and selling them on investing money in a program that will cause them almost certain financial loss.
MLM offers not just a nice income, but a truly fulfilling life, with the means to enjoy the good life. (The happiness of participants living a life of luxury and ease is portrayed in sales materials used in recruitment – and in luxury cars driven by leaders.)	“Sages of the ages,” as well as oracles from most of the world's great religions denounce the acquisition of monetary wealth as a source of lasting happiness. Those who become the most involved in MLM frequently lose their sense of what constitutes true wealth – friends, family, service to God and one's fellowman, the search for truth and wisdom, a life well lived, etc.

⁶⁰ Letter to Jon Taylor dated October 21, 2010

⁶¹ 2002 National Salesforce Survey, Research International, Inc

⁶² Quoted in DS411

<p>The time freedom you can get from MLM can be found nowhere else. You can have more time to enjoy friends and family and other personal pursuits, etc.</p>	<p>With MLM, one can actually LOSE one's time freedom. I like the way Robert Fitzpatrick put it: <i>Decades of experience involving millions of people have proven that making money in MLM requires extraordinary time commitment as well as considerable personal willness, persistence and deception. Beyond the sheer hard work and special aptitude required, the business model inherently consumes more areas of one's life and greater segments of time. In MLM, everyone is a prospect. Every waking moment is a potential time for marketing. There are no off-limit places, people or times for selling. Consequently, there is no free space or free time once a person enrolls in MLM system. Under the guise of creating money independently and in your free time, the system gains control and dominance over people's entire lives and requires rigid conformity to the program. This accounts for why so many people who become deeply involved end up needing and relying upon MLM desperately. They alienate or abandon other sustaining relationships.</i></p>
<p>You will belong to a great support team. In MLM, you have a whole network of people willing to help you succeed and be your friends.</p>	<p>Some MLMs operate like a cult with an "us vs. them" mentality. Watch how quickly the team ostracizes you when you quit or discover contrary information about the legitimacy of the program.</p>
<p>When you are earning all that money (in MLM), just think of all the people you will be able to assist in some way.</p>	<p>Think instead of all the people you can help by staying away from MLM and not recruiting others. They will not lose money in what is essentially an endless chain scam. They will do better with almost any honest work.</p>
<p>NOTE: the next five misrepresentations are debunked by Robert FitzPatrick:⁶³</p>	
<p>MLM is the best option for owning your own business and attaining real economic independence.</p>	<p><i>MLM is not self-employment. 'Owning' an MLM distributorship is an illusion. Some MLM companies forbid distributors from carrying additional lines. Most MLM contracts make termination of the distributorship easy and immediate for the company. Short of termination, downlines can be taken away with a variety of means. Participation requires rigid adherence to the 'duplication' model, not independence and individuality. MLM distributors are not entrepreneurs but joiners in a complex hierarchical system over which they have little control.</i></p>
<p>MLM is a new way of life that offers happiness and fulfillment. It is a means to attain all the good things in life.</p>	<p><i>The most prominent motivating appeal of the MLM industry as shown in industry literature and presented at recruitment meetings is the crassest form of materialism. Fortune 100 companies would blush at the excess of promises of wealth and luxury put forth by MLM solicitors. These promises are presented as the ticket to personal fulfillment. MLM's overreaching appeal to wealth and luxury conflicts with most people's true desire for meaningful and fulfilling work in something in which they have special talent or interest. In short, the culture of this business side tracks many people from their personal values and desires to express their unique talents and aspirations.</i></p>
<p>Success in MLM is easy. Friends and relatives</p>	<p><i>The commercialization of family and friendship</i></p>

⁶³ "Ten Myths of 'Income Opportunity' in Multi-level Marketing," by Robert Fitzpatrick. Available from pyramidschemealert.org

<p>are the natural prospects. Those who love and support you will become your lifetime customers.</p>	<p><i>relations or the use of 'warm leads', which is required in the MLM marketing program, is a destructive element in the community and very unhealthy for individuals involved. Capitalizing upon family ties and loyalties of friendships in order to build a business can destroy ones social foundation. It places stress on relationships that may never return to their original bases of love, loyalty and support. Beyond its destructive social aspects, experience shows that few people enjoy or appreciate being solicited by friends and relatives to buy products.</i></p>
<p>MLM is a spiritual movement.</p>	<p><i>The use of spiritual concepts like prosperity consciousness and creative visualization to promote MLM enrollment, the use of words like 'communion' to describe a sales organization, and claims that MLM is a fulfillment of Christian principles or Scriptural prophecies are great distortions of these spiritual practices. Those who focus their hopes and dreams upon wealth as the answer to their prayers lose sight of genuine spirituality as taught by all the great religions and faiths of humankind. The misuse of these spiritual principles should be a signal that the investment opportunity is deceptive. When a product is wrapped in the flag or in religion, buyer beware! The 'community' and 'support' offered by MLM organizations to new recruits are based entirely upon their purchases. If the purchases and enrollment decline, so does the 'communion.'</i></p>
<p>MLM is a positive, supportive new business that affirms the human spirit and personal freedom.</p>	<p><i>MLM marketing materials reveal that much of the message is fear-driven and based upon outright deception about income potential. Solicitations frequently include dire predictions about the impending collapse of other forms of distribution, the disintegration or insensitivity of corporate America, and the lack of opportunity in other professions or services. Conventional professions, trades and business are routinely demeaned and ridiculed for not offering 'unlimited income.' Employment is cast as wage enslavement for 'losers.' MLM is presented as the last best hope for many people. This approach, in addition to being deceptive, frequently has a discouraging effect on people who otherwise would pursue their own unique visions of success and happiness. A sound business opportunity does not have to base its worth on negative predictions and warnings.</i></p>

Misrepresentations relating to credibility of the MLM, its leaders, and important persons whose names are somehow associated with it:

MLM misrepresentations	The truth
Former presidents and other very reputable people have endorsed our MLM or spoken at our events.	This credibility argument is used with many scams, including the Bernie Madoff Ponzi scheme. As for speaking fees, it should be no surprise that the time and names of notables can often be bought.
The founders and leaders of this MLM are highly experienced and reputable people who would not want to cheat anyone. They are certainly not criminals.	Communications with top officials of MLMs convince me they don't wake up each morning wondering how many people they can defraud of their money that day. MLM leaders at even the highest levels of the company resolve "cognitive dissonance" between what they say or believe and the harm done by their program by highly developed self-deception and denial. They also typically interact with the TOPPs (top-of-the-pyramid-promoters), or kingpins, in their organizations and not with the victims at the bottom of their respective pyramids.
Warren Buffet and Donald Trump, who are famous for their riches and extremely successful careers, think MLM is a great way for the average person to accumulate wealth.	These men have ownership in some MLM companies, but do not participate in the endless chain of recruitment. They are simply cashing in on an MLM as one of many investments they profit from. They did not originate the schemes.
Our MLM company invests in very worthy (and visible) humanitarian causes. ". . . direct selling companies gave an estimated \$90 million to charitable causes in 2003. When asked if they contribute any money, goods or services to social programs, 89 percent of the direct seller respondents said they contributed to human services programs and charities." ⁶⁴	The mafia supported local charities. And because a bank robber donates some of his take to charity, does that excuse the robbery?
The founders and leaders of our MLM are highly experienced and reputable people who would not want to cheat anyone. They are certainly not criminals.	Communications with top officials of MLMs convince me they don't wake up each morning wondering how many people they can defraud of their money that day. MLM leaders at even the highest levels of the company resolve "cognitive dissonance" between what they say or believe and the harm done by their program by highly developed self-deception and denial. They also typically interact with the TOPPs (top-of-the-pyramid-promoters), or kingpins, in their organizations and not with the victims at the bottom of their respective pyramids.
NOTE: The next four misrepresentations were debunked by John Fogg⁶⁵	
<i>The Wall Street Journal</i> had at one time said that by the year 2000, 60 to 70 percent of all goods and services would be sold through MLM.	The U.S. sells about \$6 trillion plus worth of goods and services per year - give and take ten or twenty <i>billion</i> . By the most aggressive accounts, network marketing (which for the sake of quoting really BIG numbers must include the Direct Selling industry) accounts for \$50 billion in annual sales. More conservative estimates put the figure at a maximum of \$15 to \$20 billion worldwide. Super-conservative folks say MLM is about \$10 billion <i>really</i> .

⁶⁴ Estimated Social and Economic and Social Contributions of the U.S. Direct Selling Industry, Ernst & Young, Feb. 15, 2006. Quoted by DSA in its comments to the FTC, objecting to its Proposed Business Opportunity Rule (July 17, 2006)

⁶⁵ "Four Lies about MLM," by John Fogg, posted on MLMwatch.org In 2002

Some 20 percent of all the millionaires in America were created through network marketing.	<i>Twenty percent of all the millionaires in America were not created through network marketing. By most accounts, as many as 90 percent of them were created through real estate, 90 plus 20 equals 110, and that kind of math would get an F in any school.</i>
Network marketing is taught at Harvard and Stanford business schools and in numerous other leading colleges and universities throughout the country.	Not true. As Harvard 'B' School professor Thomas Bonora said in an article in <i>Marketing News</i> : <i>We do not teach such methods [MLM] at the Harvard Business School; they are not part of the curriculum; to my knowledge, they are not taught at this or any other reputable business school in the country . . . Multi-Level Marketing schemes, like chain letters and other devices, sometimes are at the borderline of what is legal -- and over the borderline of what is ethical . . . He concluded by saying that examples of legit MLMs are few and far between. Stanford officials have refused to react to this statement, apparently not considering such a claim as worthy of any comment.</i>
Some 20 percent of all the millionaires in America were created through network marketing.	<i>Twenty percent of all the millionaires in America were not created through network marketing. By most accounts, as many as 90 percent of them were created through real estate, 90 plus 20 equals 110, and that kind of math would get an F in any school.</i>
John Naisbitt, in his best-selling book, <i>Megatrends</i> , said network marketing is the wave of the future.	<i>John Naisbitt never mentioned network marketing in <i>Megatrends</i>, <i>Megatrends 2000</i>, <i>Megatrends for Women</i>, or anywhere else for that matter. You can't even find a mention in back issues of his far more liberal <i>Trend Letter</i>.</i>

The Case (for and) against Multi-level Marketing

By Jon M. Taylor, MBA, Ph.D., Consumer Awareness Institute

**Chapter 9: VILLAINS AND VICTIMS –
Who or what is responsible for MLM abuse?
Who are victimized by MLM?
What is the impact of MLM on individuals and families?
On the business community? On society at large?**

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Introduction

Most people who join an MLM buy some products, test the waters by approaching a few friends and/or relatives, and then quit without much fanfare after spending no more than few hundred dollars. But there is a significant portion of participants who lose thousands, even tens of thousands of dollars, after making Herculean but vain efforts to succeed in what is actually a flawed program. Had they understood the deceptions and fallacies underlying all MLMs, it is likely they never would have joined and allowed themselves to be victimized with such predictable results.

In this chapter we will explore who is to blame for this class of consumer abuse, what types of people are affected, and in what ways individuals, families, business, and society in general are impacted by MLM.

MLM's villains

As has been established in prior chapters, the loss rate for MLMs is high enough and widespread enough throughout the industry that independent analysts would not consider that multi-level marketing, or MLM, should be considered a legitimate business opportunity at all. But if people are harmed by MLM participation, who is responsible? Is the blame to be found in those who dream up the schemes, in those who do the promotion, in company spokesmen, in lax law enforcement, or some other group of people? Below are the types of players that I believe deserve some credit for specific MLM abuses and for allowing such flawed systems to go forward at all.



Once more: In a 1974 ruling, the FTC found in the very structure of “multi-leveling” or “pyramid selling” [now called multi-level or network marketing, or MLM] “an intolerable potential to deceive.”

“Anything goes” entrepreneurs seeking to make a killing. There is a certain class of entrepreneurs who believe that anything goes, as long as it's not illegal – or at least not enforced. They are opposed to strict government regulation and believe it is the consumer's duty to remember and observe the “buyers' beware” dictum. In other words, if someone gets hurt in their program, it's not their fault, but should be placed squarely on the victim's shoulders for not being wise in his spending and investment choices.

Participants may even see consumer protection efforts by government agencies as an encroachment on our free enterprise system.

MLM company leaders who don't understand – or don't want to understand – the harm. Some MLM leaders (founders, executives, and TOPPs (top-of-the-pyramid promoters) truly do not understand the inherent flaws in MLM as endless chain recruitment schemes. Since they interact mostly with high level people in the MLM organization, they don't get much feedback from recruits who lose money and drop out. Since they live and work in an echo chamber of enthusiastic promoters, they ignore or remain in denial of the harm when they see signs of serious problems, such as high attrition or high loss rates.

In 2001, in the presence of two witnesses, I met with Corey Lindley, who at the time was CFO for Nu Skin Enterprises, inc. about the deceptive reporting in their "Actual Average Incomes" of distributors report. Mr. Lindley responded cynically, "People don't pay any attention to those numbers."

Of course, why would Nu Skin officials want to tell the whole truth if they can obfuscate the numbers to make them appear innocuous? If true statistics were provided to prospects in a form that they could understand, no rational person would join. (See Chapter 7 where it is clearly shown that less than one in a thousand realizes a profit after expenses.)

White collar criminals who find MLM an easy way to scam people. While this is not necessarily the norm for those leading this activity, we do occasionally hear of convicted or suspected criminals who start or promote MLMs. The rapid and huge gains that can be made can be very enticing to someone who is willing to set principles of fairness and honesty aside in order to cash in at others' expense. A Google search for MLM leaders with criminal – or at least questionable – back-grounds will yield many examples.

MLM company communicators, industry spokespersons, lobbyists, and

attorneys hired by MLMs. Those whose job it is to explain away the many problems that surface in this corrupt industry create and share arguments against whistleblowers who challenge the system and plaintiff attorneys and their experts who present evidence of fraud. See Chapter 8 for the many deceptions that are used to counter those who labor on the side of truth in this arena.

These paid pro-MLM forces, especially the DSA (Direct Selling Association), are well-funded and powerful. They can be acting purely out of pecuniary or self-serving interests and divorce themselves from concern for the well-being of the public. I saw this demonstrated in several legal cases against MLMs in which the experts hired by the defense repeated the same deceptions used by MLM spokespersons for decades. (See Chapter 8 for over 100 typical examples of misrepresentations used by MLM defenders.)



Legislators responding to MLM special interests – and consumer protection officials influenced by them. Consumer protection has suffered as legislators have caved to the demands of MLMs willing to support their election campaigns with money and promises of support from a large block of voters.

I witnessed this first-hand when the DSA and some Utah MLM companies drafted and lobbied the Utah State Legislature for a bill exempting MLMs from prosecution as pyramid schemes – so long as they offered "consumable products." When I spoke at the hearings, I found the attitude towards me to be quite hostile, as the room was full of DSA and MLM spokespersons and minions.

One senator, apparently influenced by implied support from a large block of "90,000 direct sellers in the state" (according to DSA testimony in 2005) and donations towards his next election campaign, lectured all present on how in any business there are those who succeed and those who fail. He said that if a person invested in a program and didn't work

hard enough or made foolish decisions, it was not the company's fault. His message, in essence, was "You can't legislate morality." His highly conservative associates all nodded their heads in agreement.

Even Utah Attorney General Mark Shurtleff testified in favor of the bill, saying it targeted "only the really bad pyramid schemes – the ones that are not selling any legitimate products." He was clearly misinformed on the subject – and not interested in getting informed. I later learned that the primary contributors to his campaign were MLM companies. He also spoke at a USANA convention, a video of which was shown on YouTube in which he said, "If I were not Attorney General, I would be a USANA distributor" – which brought wild applause!

Complaint-based law enforcement agencies. Since victims of endless chain schemes rarely file complaints, less than proactive regulators fail to see MLM as a problem. In the consumer protection function in law enforcement, generally the squeaky wheel gets the grease. No complaints – no action. It takes a truly caring, daring, and dedicated public official to stand up to the powerful lobby and defense forces of the MLM industry. In other words, This type of white collar crime is not one for which complaints are an effective trigger for action.

Why do MLM victims remain silent? Victims almost never file complaints for a variety of reasons, including the following that we have observed in working with MLM victims:

- They blame themselves, since they've been taught that anyone who properly "works the system" will succeed and that if a new participant fails it is their fault, rather than the fault of the system.
- Since they are part of an endless chain of recruitment, they fear consequences for filing a complaint from or to those they recruited or those who recruited them, who may

When these numbers are properly understood, losses from MLM fraud easily exceed all other classes of "work from home" or "business opportunity" fraud put together.

be close friends or relatives still in the program.

- They may fear self-incrimination, since in MLM every major victim has likely been a perpetrator, recruiting unwitting persons in order to cover their escalating expenses of participation.

In the aforementioned legislative hearings, officials from the Department of Commerce and Division of Consumer Protection testified that they had received only a couple of dozen complaints from victims of MLM companies. I knew from my research that victims of Nu Skin's program alone numbered in the hundreds of thousands. But for the reasons mentioned above, it was extremely rare for anyone to file a formal complaint.

In its 2006 proposal for a new Business Opportunity Rule, the FTC noted⁶⁶



The Commission staff's analysis of consumer fraud complaint data also demonstrates the prevalence of deceptive pyramid marketing schemes. For the period January 1997 through December 2005, Commission staff found that consumers lodged 17,858 complaints against pyramid schemes, reporting alleged aggregate injury level of over \$46 million (\$46,824,347). Indeed, complaints against pyramid marketing companies consistently ranked among the top 20 injury categories reported in consumer fraud complaints to the Commission.

As serious a problem as "pyramid marketing schemes" may seem from these FTC complaint statistics, they grossly underestimate the problem. Since 99%⁶⁷ of the



⁶⁶ Federal Register / Vol. 71, No. 70 / Wednesday, April 12, 2006 / Proposed Rules

⁶⁷ Chapter 7

approximately 15 million MLM participants⁶⁸ every year lose money⁶⁹ – all of whom joined the MLM based on a whole litany of misrepresentations⁷⁰ – the actual number of MLM victims every year easily exceeds ten million (including some long-term victims), and tens of millions more if you count overseas victims of U.S.-based MLMs.

Aggregate losses would amount to over \$20 billion per year in this country alone⁷¹. In fact, when these numbers are properly understood, losses from MLM fraud easily exceed all other classes of “work from home” or “business opportunity” fraud put together. (For background on this these statistics, see Chapters 2, 7, and 8.)

In fact, if you extrapolate from the above statistics, the aggregate losses suffered by victims of MLMs since the 1979 Amway decision could easily be hundreds of millions of dollars – suffered by hundreds of millions of victims worldwide. Losses suffered by the entire DSA/MLM cartel would be many times the huge aggregate losses suffered by victims in the Bernie Madoff scandal!

Complaint-based law enforcement or consumer protection simply does not work in combating pyramid marketing schemes, or MLMs. What is needed are consumer protection officials with both the skill and the will to be proactive in dealing with “entrepreneurial chains.” They need to understand the inherent flaws in MLM and be willing to stand up to powerful legal teams that defend them.

Occasionally – but only rarely – a dedicated public servant goes beyond acting on the volume of complaints and looks at the issue qualitatively and in depth. I have been privileged to share research and experiences with two such persons.

One is Bruce Craig, former Assistant to the Attorney General of Wisconsin. Following his experiences with Amway and

⁶⁸ DSA 2009 sales figures, dated 7-27-2010 – showing 16.1 million “direct sales representatives” – which DSA admits are mostly MLM participants

⁶⁹ Chapter 7

⁷⁰ Chapter 8

⁷¹ DSA 2009 sales figures, dated 7-27-2010 – showing \$28.33 billion is U.S. sales by “direct sales representatives” – which DSA admits are mostly MLM participants. Our research shows this represents losses for at least 99% of participants.

other MLMs in Wisconsin, he petitioned the FTC to be more aggressive in enforcing existing laws against pyramid schemes, including MLMs. He is the official that reported that the average income as reported on their taxes for the top 1% of Amway Dealers in Wisconsin was about minus \$900.

Another was Kristine Lanning, who worked on consumer protection under the Attorney General for North Carolina and worked to get officials in other states to be more proactive in curtailing MLM abuse. Ms. Lanning explained to me why consumer protection officials are so hesitant to go after MLMs. She said it would take twenty times the resources to prosecute an MLM as it would to go after the typical consumer fraud case that comes before them.

The ultimate villain – a flawed endless chain recruitment SYSTEM. I recognize that most MLM participants,

including even many TOPPs, do not see the flaws in their system and certainly don't see themselves as con artists. It is not the people or the products that are at the root of the problems with MLM. I am convinced that



it is the endless chain SYSTEM (and their top-weighted pay plans) that is to blame – and the legislative bodies and regulatory agencies who have allowed MLM to continue virtually unchecked. (The FTC only prosecuted about 17 MLM cases in ten years – out of over 1,000 that were clearly violating Section 5.⁷²)

I will not repeat here all the arguments and evidence behind the conclusion that MLM as an endless chain system is inherently flawed, uneconomic, and deceptive – benefitting a few at the expense of whole multitudes of victims. Properly

⁷² See Chapters 2, 7, 8, and 10

understood, MLM should be illegal per se – as are “pay to play” chain letters and no-product pyramid schemes.⁷³

The villain we don’t want to see – all of us! As the famous Pogo cartoon caption said, “We have seen the enemy – and he is us.” Ultimately, all of us must assume some responsibility for allowing such an unfair and deceptive business practice as MLM to spread like a fast-growing cancer without doing anything to stop it.

Clearly, the FTC made a mistake in not ruling MLMs as inherently unfair and deceptive, and therefore illegal (based on Section 5 of the FTC Code), as they do with classic no-product pyramid schemes and “pay to play” chain letters. The Amway decision set up a terrible precedent, but we may have to live with it – since the “DSA/MLM cartel” (my term) is too powerful to be stopped altogether. However, we don’t have to allow the DSA and other pro-MLM forces to have all their wishes granted in future rulings and legislative actions.

Adequate disclosure would go a long way towards protecting consumers. For example, if prospects knew that their chances of earning a profit after expenses were at best about one in a thousand, or that the odds of earning the huge incomes displayed at MLM opportunity meetings and in their promotional literature were one in 25,000, or one in 50,000, etc., they may hesitate to sign up.

Other suggestions that could work to prevent the worst abuses of MLM, thereby creating a “good MLM” (if such were possible), are at the end of Chapter 2. But I don’t expect any of these to be taken seriously, as no one would achieve sudden wealth.

MLM’s victims

There are many kinds of people who fall prey to the false promises and questionable appeals of MLM recruiters. Some that I have observed through the years include:



Friends and relatives of participants.

Many simply fall for the person-to-person appeals used so effectively in endless chain recruitment programs. And some join just to please a friend or loved one and come to see after several meetings with skilled recruiters some possibility that they may personally gain as well. However, in nearly every case, the result is disappointment and loss - sometimes significant losses as result of a recruiter exploiting this relationship. Trust is violated and relationships are strained.

The unemployed or underemployed.

Many are struggling and eager to improve their situation – often willing to grasp at any straw that looks promising. They are sitting ducks for the oft-repeated slogans of MLM recruiters that portray MLM as a solution to their financial woes. This to me is one of the most reprehensible strategies of MLM recruiters. Those who join nearly always get further in debt or lose what precious resources they had left – only to enrich TOPPs (top-of-the-pyramid promoters).

Ambitious but unwise entrepreneurs.

Some of these find the MLM appeals of “residual income,” “time freedom,” “multiple streams of income,” etc. irresistible. They are always looking for ways to make a buck, especially the possibility of “absentee income.” They also fail to see the inherent fallacies underlying all “entrepreneurial chains.”

The unsophisticated and uneducated. Persons unschooled or weak in their understanding of basic mathematics or economics may they fail to see the inherent flaws in endless chain recruitment systems. These folks may not be of low intelligence, just lacking in mathematical savvy.

The knowledgeable but unwary. Others are just caught unaware, as the dialogue of deception is so pervasive and skillful that even intelligent people are often duped into believing that MLM could be legitimate.

I have to admit that I was one of those. With an MBA background which included

⁷³ See Chapters 2, 7, 8, and 10.

two years in statistics, economics, accounting, and finance and with research skills from my doctoral studies, and though I was originally very skeptical, I eventually fell for the deceitful rhetoric of my recruiters and upline. My “due diligence” in contacting federal and state sources and the Better Business Bureau were not helpful. (See Chapter 1 for my full story.)

Common interests. Some find themselves drawn into an MLM program because of some interest shared by an MLM recruiter. It may be an important relationship with the recruiter or an interest in earning large sums of money on an absentee basis so they can pursue other interests. More common are those who have a passion for alternative medicine, for “pill, potions, and lotions,” with magical properties that promoters claim will cure or prevent all sorts of maladies, enhance one’s energy and mood, and even prolong one’s life.

Members of close-knit organizations. Once a member of an organization that has cultivated very close relationships becomes hooked on MLM, he or she may be successful in recruiting others and they still others in a subgroup of MLM adherents that eventually involves the whole organization.. An “us vs. them” mentality can set in, much like a cult. For example, some Mormon and Amish communities have been powerfully affected by MLM recruitment campaigns.



MLM junkies. These are persons who have become addicted to the passive income appeal of MLM and have failed time after time in each of several MLMs, but keep trying new ones in hopes that “this may be the one.” They are like the person in and out of a long string of romantic relationships looking for the ideal mate.

Many friends and family members of such MLM junkies have written me, pleading for ways to deprogram those for whom they care deeply but who turn a deaf

ear to reason. Regrettably, I have to tell them that a person convinced against his will is of the same opinion still. They may have to crash and burn before they come to their senses.

Some never will accept the truth about what their MLM involvement has done to them. One young woman reported that during her growing up years her father was always spending the family’s resources chasing the dream of becoming a Diamond in Amway. He had given up his college education to pursue his “dream” and accepted government welfare to help support his family. She avoided having friends over because they would see that she and her siblings slept on mattresses on the floor. This had been going on for 20 years!

The small business community. Any unfair and deceptive business model saps resources that could have been better spent on legitimate businesses. Loans are made to MLM companies that could have been made to honest businesses – though bankers and SBA officials have said they will not loan to new recruits seeking funds to start their MLM “business.”

Products are produced for consumption by pyramid selling participants that draw sales away from legitimate businesses. And people attempting to perform legitimate direct selling functions sometimes find it difficult to compete with MLMs who deceptively use the implied “business opportunity” appeal to sell products. Unfair competition is harmful to legitimate business generally.

Affinity groups. MLM recruiters have enjoyed an unusual pattern of success with tightly-knit groups that we sometimes call “affinity groups.” This is particularly noticeable with some churches, such as the Amish, Latter-day Saints (Mormons), and some evangelical entrepreneurs who tie MLM to being better able to perform Christian charitable work. One MLM seminar was labeled something like “Christian Millionaire Mindset Conference.” We have also received reports of independent churches that are virtually ruined by a pastor’s involvement in some MLM recruitment tied in with a church’s fundraising efforts.

Humanitarian causes.

We have received reports of MLMs selling nutritious dry-pack meals to poor struggling nations in Africa. New recruits to their programs are told that a portion of their product purchases go to helping feed starving populations through these special meals – or that donations can be made directly to such funds. What they are not told is that the food is supplied with a huge profit margin to the company.

We have also learned of programs tied into MLM recruitment, in which scouts identify AIDS victims in Africa. New MLM recruits are told that they can sponsor an AIDS victim and that a portion of their purchases will go towards helping that person get the help he or she needs. The implication is that if the recruit drops out and stops meeting his or her quota of purchases, the aid to that person will stop.

Society at large – all of us. When MLM or any form of white collar crime spreads unchecked in a free society, everyone suffers – because we all pay a price. We wind up providing support for victims who have been impoverished, to families whose marriages are broken up, to attorneys and courts who must deal with class action lawsuits. And we lose respect for those in authority who we assume are there to protect us from scams. This includes the FTC, state attorneys general, consumer protection agencies, legislators, the Better Business Bureau, and a complicit business press that (in the case of MLMs) gives glowing reports of rapidly growing new companies – that are merely following a pattern of early momentum in typical pyramid scheme fashion.⁷⁴

Victims cheering the victimizer.

As an interesting side note, when I tested the Nu Skin program (IDN Division), I remember vividly one “IDN University” meeting in a large auditorium where a “Blue Diamond” (highest level in the pay plan) was introduced to an enthusiastic audience. He stammered as he admitted sheep-ishly

As MLM grows, struggling consumers who fall for MLM suffer, families suffer, legitimate businesses suffer, law enforcement suffers, and society at large suffers.

(as best I can recall), “Gosh, I don’t have much to say. I haven’t been working much lately, as I have plenty of money coming in to support my ranch, travel, and many hobbies.”

He left the speaker’s podium, and the person presiding announced, “There goes a man who has made \$20 million in network marketing!” We all cheered and clapped as he strutted down the middle aisle of the auditorium in his double-breasted suit with gold buttons. What I didn’t know then but understand perfectly now, is that we were all his victims. And we were cheering him on!



Personal and social costs of MLM

MLM’s effects on individuals and families. By now it should be clear that MLM exploits the time and energy of participants, all for the benefit of founders, TOPPs, company executives, and others who dip their hands in the lucrative MLM till. While most recruits buy some products and may try unsuccessfully to sell products or recruit, some take in the deceptive appeals of MLM promoters and make a valiant effort to succeed. But because of the flaws in the system, almost all recruits after the first ones in wind up losing money and dropping out.

In the long run, impoverishment of participants is not the worst of problems with MLM. Participants squander their “social capital,” placing in jeopardy those relationships they have spent a lifetime cultivating. It is not unusual for persons who are hooked on MLM to become ostracized by other family members and social groups of which they are a part. The social networks that were built on trust and caring

⁷⁴ See Chapter 3

now find them a liability and an embarrassment.

We have received reports of numerous divorces due in no small part to MLM involvement, as one partner rejects the other partner who becomes a “dream-stealer” for not supporting him or her. And sometimes extended families become split over MLM involvement.

Sadly, MLM leads to worse effects for some. I have learned of two murders, two suicides, and one near suicide resulting directly from intense MLM involvement.

For sample letters from the thousands we have received over the past 15 years related to personal and family problems with MLM, see Appendix 9A.

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Conclusions

Together with the information from prior chapters, we see that there are many villains and many victims in MLM. People who have read many reports on my web site, as well as reports of other independent consumer advocates and researchers in this field, are surprised at how much worse MLM is than they had previously supposed. It certainly qualifies as an unfair and deceptive practice, which the FTC is pledged to protect against. And based on worldwide feedback the harm is more deeply felt and widespread than I and others supposed when we first began reporting on the subject.

From my communications with thousands of MLM participants and their families, as well as with MLM officials and law enforcement officials, it is clear to me that few understand the harm that results from MLM participation. Finding one or more villains in this field is virtually

impossible. It is the SYSTEM that underlies all MLM programs that is the chief villain – an endless chain of recruitment of participants as primary (or only) customers. It is essentially a money transfer scheme, transferring funds from a revolving door of recruits (who must make purchases in order to participate fully – usually by subscription) to a few key people in the organization, including founders, managers, and TOPPs (top-of-the-pyramid promoters).

Again, the victims of MLM are many and varied, including family, friends, affinity groups, and those struggling to get ahead. Most participants are minimally affected, but those who believe the hype and invest a lot, lose a lot. Some even display patterns of addiction and are never the same. As MLM grows, struggling consumers who fall for MLM suffer, legitimate businesses suffer, law enforcement suffers, and society at large suffers.

According to a statement by former FTC Chairman James C. Miller, III, “Section 5 of the FTC Act declares unfair or deceptive acts or practices unlawful.”⁷⁵ If there was ever an unfair and deceptive practice, MLM is it!

“Section 5 of the FTC Act declares unfair or deceptive acts or practices unlawful.”¹ If there was ever an unfair and deceptive practice, MLM is it!

⁷⁵ *FTC Policy Statement on Deception* by James C. Miller, III, FTC Chairman, dated October 14, 1983. Appended to Cliffdale Associates, Inc., 103 F.T.C. 110, 174 (1984).

Appendix 9A: Sample feedback from persons affected by MLM

NOTE: For obvious reasons, the individuals who have sent us letters such as these are often reticent to identify their names or addresses. Many have suffered great losses or have family members who are still suffering but are in denial about the fraud perpetrated upon them. These particular letters were selected because they powerfully express problems with MLM participation of which many in law enforcement officials may not be aware. Victims of MLM abuse seldom file reports with law enforcement officials for reasons outlined in this chapter. However, they will write us because we have no authority to act directly against the MLM companies, but do understand and can advise them on what actions they might take. Such actions will be discussed in Chapter 11.

**So, after crying every night for a month and being completely sick about life I have decided to stop the madness! Now I feel like I am FREE! It's amazing, I can talk to people without feeling the weight of "did you talk to them about ARBONNE??" on my shoulder. I can't tell you the relief I feel!
- Fancy Free!**

"Fancy Free" escapes the madness

Everything on your website has been going through my mind in the past month. About 2 months ago, I started on my "MLM mission" in Arbonne. I was completely head over heels with the thought of "residual income" just for "sharing" with others how they could make "residual" income. Now I am just sick about the whole thing, especially because a close friend of mine signed up under me.

Every night I would cry just THINKING about having to go talk to people about the "opportunity." I was being forced by the whole MLM thinking to talk to friends I haven't been in touch with and pester them or "drip" on them as my upline told me.

I was continually told by my upline that I was feeling down because I was getting out of my "comfort" zone or because it was

building my character. . . I was more stressed out then I have been in my whole life!!

I had so much money into it that my husband didn't want me to quit. We even had to put MORE money into it at the end of the month so we didn't "lose" our qualification quota. The night I spent another \$450 on our credit card to keep our "district qualification," I broke out in hives, I have never been allergic to anything in my life, I don't think it was a coincidence.

So, after crying every night for a month and being completely sick about life I have decided to stop the madness! Now I feel like I am FREE! It's amazing, I can talk to people without feeling the weight of "did you talk to them about ARBONNE??" on my shoulder. I can't tell you the relief I feel!

I regret that I got my very good friend involved and I am afraid of the rift it may have put in an otherwise great friendship. I am not sure how I ever got talked into this or how anyone stays in it! I appreciate your insight and humor. .

Thanks,
Fancy Free! (Erica)

Family torn apart by various MLMs over the years

Dear Dr. Taylor,

Thank you so much for providing the truth regarding MLMs. Pyramid schemes have torn my family apart on many different occasions. My dad was involved in Dare to Be Great in the late 60's/early 70's. Now several of my family members are involved in LifeMax. It hurts more than you can

imagine. Seeing everything get taken from us as children and now seeing the potential for it to happen again to my younger sister who has a 10 month old baby.

Perhaps what's worse is knowing so many people who are hurting in this bad economy are desperate and are turning to this. And how the scammers use God and "the chance to help starving people around the world"! It's AWFUL!!!

Just a quick question, I noticed now when I Google "LifeMax and pyramid schemes" that I can no longer find articles about people who've been burned (I know they're out there). Seems that Lifemax has purchased all the key words and used Search Engine Maximization to continue to sell their "lifestyle" and silence the truth. They're deceiving people even more than ever with articles that are disguised as legitimate reviews. So, sadly, people will have a hard time getting the facts. Is there any solution or recourse?

I'm lucky to have found your web site. I will keep it in my files for backup when I need it.

Best regards,

– Paige B.

Daughter of Amway dealer who lost much of her childhood is still haunted by Amway.

My parents were involved with Amway – the leading MLM – for 20 years. The costs to my family for their participation have been devastating. I and my six other siblings were robbed of my parents' time, attention, and relationships because they spent most of their waking hours dreaming about their Amway business, going to rallies, seminars and functions that continued to fuel this fire but which eventually cost them their self-respect, their children's and many friends' trust, and tens of thousands of dollars.

It also cost my father his college education because as he was beginning

plans for attending school, he decided to join the Amway system because it promised to be a short cut to financial freedom. Now, after 20+ years of financial, relationship, physical and emotional loss, he struggles to find work that can support his family and pay off his gargantuan debt.

"I grew up with the secret that my parents were in Amway – I couldn't tell friends what my father did for a living. I only said he had his own business.

"I couldn't bring friends to my house because I was embarrassed that they may find out I didn't have any bedroom furniture or that my siblings slept on mattresses on the floor. Not only have we as children had to pay for our own college educations and weddings, but we had to pay for our own school clothes, school supplies and other basics growing up; except for the time they received welfare.

"Even now I am not comfortable leaving my own daughter in her grandparents' home because of its depressing state of disrepair. You may be thinking, well maybe my father was just lazy. But I am here to testify that my father and my mother worked the Amway business [with total dedication].

"When we went without the basics year after year we believed as children that if we were patient a little longer while my parents were gone showing the plan or attending meetings, they would one day "go Diamond" and it would all be worth it. We were going to be rich someday and then we would get our parents back; then we would have clothes and furniture and security. But the promise couldn't be kept because the compensation plan for MLMs don't make good on their word that it is an opportunity of a lifetime.

"If working hard and sacrificing your every waking moment for the dream was what it took, my parents should be at the top. They wouldn't quit, no matter how much they and we suffered, they believed it was just around the corner so they kept working the business for 20+ years. The suffering created from belief in the lie and scheme of MLM will continue to haunt my family."

– Anonymous Amway victim

Get a real job at McD's and make honest money.

MLMs? Stay away from them and those that promote them. The pressure to join is intense and subtle. The guilt that can be applied is terrible.

My wife and I were in 7 different systems – Nu Skin, Amway, through to ACN and Usana. Each held the carrot of success and leisure before our eyes, and we could taste our prize. The tricks to get us hooked were ingenious, the pressure to conform was enormous and at times brought my wife to tears because we just couldn't afford to attend a certain "Function." This of course showed that we were NOT committed to our success and would hold up our advancement in the organization.

We made just enough money to entice us to try a little harder, spend a little bit more money on a NEW and BETTER lead generating system. Any profit you might make for that month would be swallowed by the next system that was sure to make finding your next downline a snap. Did we make any profit after all those years of chasing our dream? NO! Did we spend our grandchildren's inheritance? No, but if we had continued, who knows?

The functions, weekly meetings, the phone calls from and to your all-knowing upline, the books, the seminars and the constant search for the 'BEST' lead generating system with their set-up fees and monthly lead expenses and your monthly commitment of product purchases finally broke our back and our spirit, and we quit.

Where are all those upline "friends and supporters"? Nowhere in sight.

Anyone looking to make money in MLM had better start by selling third rate used cars and get skin as thick as a rhino. Better yet get a real second job at a Mc D's and make some honest money.

– George

MLM scams harm individuals and society financially, relationally, and morally.

Recently a close friend of mine got involved with ACN with her grown son and husband. She has turned into a brainwashed zombie and because I'm less than enthusiastic about it (I haven't said anything disparaging, though), our relationship is slowly waning. She's bought into it hook, line and sinker. It seems that at this point she would just rebuff my critical analysis. It has spurred me to do a lot of research, however, and I'm indignant to see it has become a global phenomenon to the detriment of all.

Thank you so much for hosting this website. The truth about these scams needs to be presented as an antidote for the lies of illusive riches which only appeal to ones baser nature. I feel these scams harm financially, relationally and morally to individuals and society as a whole. It seems the cancer is growing and spreading to developing world which can ill afford to slow their economic progress. Thank you.

– Anonymous wanting MLM antidote

Chiropractor's girl friend threatens relationship and dumps almost \$50,000 into two MLMs.

I am a Chiropractor in Sigel, PA. My girlfriend is pulled into MLM / Pyramid schemes "businesses. She was deeply involved in Market America. Brainwashed into spending her own money (Credit Cards!), purchasing products and working toward false "LEVELS" of achievement. Now reaching "Executive Coordinator" and was almost pulled into the DEEP recruiting part of the business.

She spent over \$30,000 in purchasing products, going to seminars and buying marketing strategies to "success". They had her brainwashed telling her she must put family, friends, relationships, work, everything second for the next few years to

accomplish her "Financial Freedom". She almost left me.

She finally left MA and saw that they were all cons and stopped spending full force, only because someone from another MLM, "UNIVERA" told her that their program was much better and easier to make money. She admits she understands that it is the same "PYRAMID" scam as MARKET AMERICA, but tries to reassure me that she knows they are sharks, but she can work it "smart" and not get scammed.

She believes the products are actually HELPING people, and justifies that is why UNIVERA is "ETHICAL". I managed to get her out of credit card debt (almost \$50,000) and refinance that debt into her house payment and close all of the credit cards to stop the temptation of dumping money (22% interest) into this new MLM.

It is destroying our relationship. How can you get someone to completely stop involvement in these organizations? When it comes from myself or family, she defends the programs and pushes away. Could you please send emails to her, or to me warning of MLM/Pyramid scams. How they are illegal and unethical, no matter how "good" the product is for people.

Thank you,

– Jonathan

MBA grad sucked into 3rd MLM in seven years, sinks into depression

My son lives in California, has an MBA and has been involved in network marketing for about seven years. At one point he had a six-figure income and thought the sky was the limit (Cyberwize). When his upline decided to change network marketing companies due to a disagreement and pending lawsuit, my son followed with financially unfortunate results.

Now he and the same upline are in a third company. My wife and I have been pretty much supporting him for the past nine months. He keeps thinking that he will experience a 'break-through' and be on top again, but he seems very depressed some

of the time. We are very worried about him.

Do you know of anyone who might help him to see the reality of the MLM lie? I have tried to reason with him, asking him to discuss his situation with a job counselor on several occasions and offering to pay for the counseling. No luck. It seems to me that MLM is very much like a religious cult and that victims like my son will require deprogramming by a professional. I'm sure he won't listen to me and has a pretty closed mind at this point.

– Anonymous victim with MBA

Mom turns irrational when it comes to MLM

For just some quick introductory back story of my relationship to MLM, my mother began playing the game with Excel telecommunications when I was about 12 years old. It was more than bizarre. She put 500 dollars on a credit card to buy miniature phone magnets, while I had to be on the free lunch program at school.

But at age 12, it's hard to tell your mom that she's being scammed. And of course I wasn't as equipped to do the research as I am today. Then flash-forward about 10 years, where she divorces and moves in with her mom. For a while she works normal jobs, and seems more happy than I've ever seen her. We all laugh to ourselves in relief that she has dropped the cultish Excel, but don't bring it up, assuming that she herself is embarrassed about her participation.

Then one day she drops all that, and relapses into Xango. When we finally confronted her about MLM, she had already spent all of the money she had gained in the divorce, lost a house, and went into what we are estimating is around \$150,000 in debt.

I know you're not going to believe this, but in almost every other facet of her life she is an especially rational person, but this one sector has her so brainwashed we don't know what to do.

Being as how you are one of the primary - or at least most visible - specialists on decoded MLM rhetoric and practice, I

KNOW that you must get these emails often, so let me also say upfront that I'm not writing to beg you to fly here and deprogram my mom, though we (my brother and I) are desperately attempting to do so.

In all my years of education, I never researched something as intensely - and neurotically - as this company and its mode of operation, mostly because no grade has ever been as important as the mental health and well being of my mother.

In a frantic couple of months, I had compiled my research (beginning with Excel and ending with Xango) into a Power Point presentation that became our two-day long intervention. It was presented in a way such that I thought this was information she was unaware of, and tread delicately, as I felt like I was about to destroy something she loved.

It seemed to break her emotionally, and when it seemed she was going to quit, she left on vacation, and came back, defiant like I had never seen her before, insistent that we are never allowed to bring up this topic again, and that she would continue to run rampantly into debt along with this magic juice Xango. We are the dream stealers. . .

My brother and I have had the unique experience of borrowing my mother's DVD's and training materials provided by this company, and we noticed some peculiar things, one of which is the introductory DVD they give you when you sign up. On the DVD menu, there are 4 videos to choose from. When you play all, it plays the first 3, each of which are maybe 5 minutes long. The first two are essentially the regular MLM hype with limos and yachts, and then the 3rd one basically a commercial for training material for you to buy. And then oddly enough...it just turns off. That's right, the DVD TURNS OFF.

But wait, wasn't there a 4th video? So you go back, turn it on, and scroll down to the 4th video and press play, and it's about

This MLM scheme is fraudulent and should not be marketed as a money making opportunity. I did follow all of the steps and I did work very hard which is a proven and solid fact. These were the conditions which I was told would produce a profit. I followed the plan and it didn't work. Everyone who gets into this business is lied to and in turn required to lie to others to achieve even a little
- Nicole L., Utah

an hour-long video giving you the legal side of what can and can't be done in MLM, what health claims can and can't be made etc. - basically the part of the video their lawyer made them put in.

We made my mom watch it, because she admitted she never had, and it

absolutely decimates the way this business is conducted. I mean, there is NO WAY any of these reps have actually watched or abide by this section of the video - not that that's new to you... but it made me wonder if that becomes a legal issue, deliberately hiding that sort of thing. . .

If any of this is help then I am glad to offer it, and if there is any complimentary information to what you have learned, I would love to know about it. Either way my sincerest appreciation for your dedication and your time,

— Richard

Woman seeks enough through MLM to work from home but winds up having to work harder than ever to repay debt.

I joined Herbalife as a supervisor on June 8th 2005. I joined through the marketing company Online Business Systems.

I became a supervisor because my coaches said that it was a proven marketing plan and that if I had a desire and worked hard then I would be able to replace my income within 6 months. My goal wasn't to become extremely wealthy. It was just to make enough so that I could stay home with my children. That amount was around \$1700 per month that I would need in order

to complete my goal. I am a hard worker and I do have a strong desire to succeed and even though my husband had some very strong reservations against this plan, I was going to prove my ability to make it work.

I worked my regular 40 hour weeks and then put in countless hours recruiting and selling product for my Herbalife business. The first month that I was in business, which was July of 2005, I produced \$10,000 in business for Herbalife. This achievement propelled me to the level of World Team. I received a check for \$450. I thought that I was doing very well and that what they had told me was true: Desire and Hard Work = Freedom, Time, and Money. However, this excitement died very quickly.

When I began this business my “coaches” told me that if I was going to do this at all I needed to invest some money so that I would have the ability to make it work. I was promised that if I followed the steps that they gave me and with their help and expertise I would make my money back in the first month. I invested approximately \$4,500 on a credit card. I spent the next 8 months the exact same way as the 1st month but without the results. I was only fattening Herbalife’s coffers while putting myself and my family at extreme financial risk. Everything I was told about this “business” has been a lie. None of Herbalife’s representatives told me that according to their *“Statement of Average Gross Compensation of U.S. Supervisors in 2004”* only 1.5% of “Active Leaders” earned enough to meet the “pay to play” requirements of \$2,000/month in Herbalife sales/purchases in order to qualify for commissions and advancement in the program – and that more likely less than 1/10 of 1% of ALL distributors (including dropouts) ever earn enough to report a profit on their income taxes after subtracting the most minimal expenses needed to be “successful.” Had I known this crucial information, I would never have invested a penny in their program. To even present this as a legitimate income opportunity is a huge misrepresentation. This MLM scheme is fraudulent and should not be marketed as a money making opportunity. I did follow all of the steps and I did work very hard which is a proven and solid fact. These were the

conditions which I was told would produce a profit. I followed the plan and it didn’t work. Everyone who gets into this business is lied to and in turn required to lie to others to achieve even a little.

– Nicole L., Utah

Photographer misled by MLM recruiter & loses over \$15,000

I have been married for fifteen years and we have four children – ages two, six, seven and ten. I home school them. I am also a photographer. I began my home studio in late September of 2006, so I am still in my very fragile first year of business. My husband also is self employed with his own ceramic tile and hardwood flooring business, which provides our family with just enough to manage a growing family of six.

In late January of this year, a Photomax Distributor contacted me. She had purchased my name in a leads package. She went through the scripted call with me, and I listened to the recorded voice on demand call made by Laura. I was interested in Photomax as an addition to my new photography studio. It seemed possible to me that I could use the lab and sign people up as customers. I thought that I could earn a decent commission from all my new customers to help fund my new studio, as well as help with family needs.

According to Laura’s voice recording I could get started in this business for next to nothing while using what she called “OPM” or “other peoples’ money” because “nearly every business gets started this way” and that “it only cost most people about \$25 in interest to get started” with the \$1350 Fast Track package. This is the package which is meant for the “real go-getters” who “want to quickly begin earning the bigger money faster.” According to Laura, going with that package would position me to, “begin earning several thousand a month quickly, earn higher commissions and be entered in a monthly bonus pool, which is like a profit sharing plan, with checks ranging anywhere from \$1200 to over \$20,000 a month - on top of your regular commissions.”

I was led to believe that I could use the opportunity to help support my family. I was told I only need to bring two things into the business. These were “commitment” and “coachability,” which meant I needed to do everything my upline told me to do.

I was immediately sent out training information and training call schedules and told I should attend a minimum of two training calls a week and at least one prospecting call to be successful. I was also instructed to make a list of goals and set my time commitments. All of this I did. I also was told to provide a list of at least 30 people to contact; I then listened in on three-way calls while my “success coach” called them for me. I was given a list of Lead resources and I listened to every recorded training available on the “Millionaire Max” web site. I was completely coachable.

I did not have an Internet connection fast enough to view the necessary websites, so I was told that DSL would be helpful to my business. I was also told I would need a good headset to use while making calls. After all suggestions I ended up getting DSL, a professional headset, a second phone line, a second computer, several packages of leads and several types of marketing materials.

In April, a Leadership Conference was scheduled in Dallas. On all the training calls leading up to the conference, new recruits were encouraged to get to the conference (which was out of pocket to distributors) “even if they had to walk.” We were told that of all the things top income earners had in common, the number one thing was that they all attend every conference, no matter what. Our seriousness to our business was also questioned if we could not attend the conference. Needless to say, I packed up my family of six and drove from Tennessee to Dallas. My husband missed three days of work.

While at the conference, we were encouraged to become “a product of the product” and to purchase Nu Skin products whenever possible. They had grand prize drawings you could only be entered into with a \$500 order -- all of which was commissioned to the conference sponsoring upline”.

Daily inspirations and motivational messages are emailed out, meant to encourage, but some with the underlying tone that “failure” is your own fault. The current best-selling book *The Secret* is heavily encouraged and talked about. It was implied or stated in emails, that the reason I was not succeeding was that I did not “expect” to succeed. The teaching of *the Secret* says that the Universe will give you what you expect to receive. Therefore, if I was not getting recruits, it was because of my thinking and not my work.

The one thing I was coached on the first few weeks was the “Power of Four” model, which stated that if I signed up four recruits and helped them each sign up four recruits that I would earn over \$15,000 within my first three months. This became my goal, which they taught me to envision.

It is now August and almost a full six months later, after hundreds of hours of work making thousands of calls and contacts, I have been able to sign up only one recruit who quit the first month, and I have received approximately \$400 in commissions. *Thanks to this Nu Skin scam, I now have a debt of “OPM” (your OPM) totaling \$15,456.97!*

That is not at all what the “Power of Four” model showed! That is NOT what I signed up for. I have a young family that this company has preyed on by using unethical methods. Your company has distributors playing on peoples’ emotions and is causing great harm to families around the world. What you have with Nu Skin are a few people at the top making millions of dollars at the expense of middle and lower income people who are defrauded of their funds through one deception after another. There is a form of emotional abuse of distributors going on that is not only causing emotional pain, and family turmoil, but is causing financial ruin to many. What you have no matter how your attorneys word it is a pyramid scheme!

Now I have to wonder as well about the supposed successful uplines like mine. Are they actually even able to retire? If they are making such great residual income and are now millionaires, then why do they continue to recruit? It is surely not out of the goodness of their hearts, as they would

have their downline believe. . . I did not plan to fail and I will not fail! I will not let your monster company ruin my family relationships or business-es by adding this unnecessary debt to my family. . . ***This type of scam needs to be exposed more fully to protect the public. . . .***

Seriously,

Scammed by PhotoMax (Div. of Nu Skin)

Son gives up college for MLM

OMG, Dr. Taylor, *your research is incredible and a direct hit.* I'm trying but this cult is getting stronger as our economic down turn continues to plague us however we survived harder times. . . It is sad in this case because this family will pull their son from his sophomore year at University of San Francisco to work full time in this cult. I escorted my family members to this conference and felt like it was a version of the Jonestown revival act episode II. You are our hero!

Kind regards from California

Karen

I really appreciate what you have here! I googled NuSkin and I am so glad I found your research and nearly endless information. I recently completed an online form with Nuskin and they are calling me daily to sign up. I have been selling insurance for 22 years and very new to making money online. I have been learning daily since February. I have learned nearly forty years of history in one hour from your website. I have also been talking with the Numis Network and it appears to me all the money making is in recruiting. I tried the MLM Evaluation quiz and they failed. What got me con-cerned was not making my millions by selling an actual product or service, even though they offer one, the real money making was recruiting.

Your website makes perfect sense and more people need to know about it. I really truly appreciate your work here. You have saved me money and more importantly time.

Sincerely,

Charles Lampley

**The truth about these scams needs to be presented as an antidote for the lies of illusive riches which only appeal to ones baser nature. I feel these scams harm financially, relationally and morally to individuals and society as a whole. It seems the cancer is growing and spreading to developing world which can ill afford to slow their economic progress.
- friend of MLM recruit-turned-zombie**

Feedback from around the world

Be forewarned if you live in the Alabama or Tennessee area of the USA:

I recently contacted a supposed company called income@home.com due to a local radio ad that was very convincing. The ad was on the radio show Rick and Bubba and because of my familiarity with the show and their good morals I was caught off guard. I went to income@home.com and filled out some contact info and was immediately contacted that afternoon.

This person soon became my business mentor and I was in contact with her a minimum of 2 times daily. I became suspicious after I received my business training packet and the information was vague and had a lot of rah rah success stories. It presented everyone as happy with lots of free time and luxury cars etc.....

I pressed my mentor for more concrete information about the company that turned out to be Herbalife not income@home.com. Information was promised, but I would have to continue with the steps laid out for me to become successful in this supposed great opportunity. They put you on a fast plan to get you involved with little knowledge about what you will be doing. I was asked to set up a new checking account for my business along with a separate land line for the business less than a week after contacting them. When I refused and said I needed more info before going ahead with the plan I was told that "my steps had been laid out like a map and that I must follow them in order to be a success"

I felt something was wrong. If this was such a great thing why could I not be given all the info I wanted up front? I was told I would know all in due time, but I must continue to follow the plan. In less than a weeks time they had me set up with a website called a retail mall site and also my own personal website. It was very convincing in the beginning. Luckily I smelled a rat and did not get the business phone or checking account. In less than one week I was in for more than \$200.00 with my training packet and of course the

product that I needed to use in order to build my success story. I'm supposed to get a refund, we'll see how that goes. What an absolute scam!

Thank you for all of your research and info. I wish I had found this website before getting involved with Herbalife.

Sincerely,
Mark B., Tennessee

Follow-up letter.: I'm located in Tennessee, USA. **The ads are being run on Alabama radio and also Fox news is running the same ads.** Thanks for getting back with me. Keep up the good work, Mark

Canadian man finds our research helpful in guiding a woman from MLM:

Hello Jon.

I would like to share this story with you. In February of this year a lady stopped by my office; a fellow I know recommended she talk to me. She was considering joining WFG in Calgary, Her cousin had taken her to an opportunity meeting and she was very excited, the WFG mission statement "No Family Left Behind" really struck a nerve she told me.

By the time our conversation was finished she decided WFG was not for her and although saddened and disappointed, happy for the insight(sic) I had provided. I gave her few web sites to review and access – more info on MLM, pyramids, etc.

Further on in our discussion she did say her relative was not pleased with her decision not to join WFG [and] has not spoken to her since. However she herself felt relieved.

To make a long story short, I would not have been able to help this lady or the few others I am aware of had it not been for the research material on MLM scams, that you and Robert Fitzpatrick and other caring citizens have provided.

Thank you and keep up the good work,
Ed Rooney, Canada

Another person in Canada is reminded of why he avoids MLM:

Thank you for an excellent site. A relative has just joined yet another MLM (ACN) here in Canada and I wanted to remind myself why I should stay away from it. I'm certain you are saving many people hardship and heartache with your information. Keep up the good work!

Martin R.

Egyptian at German University sees MLM as epidemic disease that threatens his third world country

I am Egyptian living in Cairo and working, as appears in my signature, in the German University in Cairo.

The spreading of the network of that MLM spider at my university terrifies me. Actually, this industry CHANGES people. My friends have changed! They act weirdly and treat me as a "customer". In addition, some of my colleagues, who are supposed to be researchers, left research and now active for MLM!

Now, to be honest, I am being their opponent. **I am trying hard to stop that epidemic disease that threatens our community; especially that I am in a third-world country where people tend to be lazy and unproductive.**

Thanks a lot for your time and support.
Mohammad A., Egypt

Swiss financial advisor warns friends and family in Spain against MLM

[Your web site] has been extremely helpful as I am Spanish and live in Switzerland and was never aware that such schemes were actually legal. I have been approached by an excolleague in Spain to join the so called FANTASTIC opportunity offered by Agel because they are opening up their Swiss branch and at the same time my brother in Spain got contacted through colleagues. It took me 5 minutes to look at their website, see their recruitment video to understand it is all a scam. I am a financial investment advisor working in the financial industry now for over 7 years with a long experience in marketing-sales jobs (I

worked 5 years at Goldman Sachs) so it wasn't difficult for me to see that it is a scam.

That said, **I am shocked the regulators in the US are so bland on these types of schemes** and I believe I had never heard of any of them in Europe until now. All your research has been extremely insightful and hopefully helpful (time will tell). I have forward it on to my whole family and network of friends in Spain and asked them to forward it on as well. By far the best part for me are the 28 points to discern whether it is a legitimate marketing effort or a pyramid scheme. I have had a bit of trouble to find the list of recognised schemes though. Is there any official website from a regulatory body in the US that makes such announcements?

- Rosa M., Switzerland

Woman in London finds Nu Skin recruitment methods deceptive:

Thank you so much for the information about mlm on your website.

Nu Skin are currently putting ads onto London Craigslist, an online job forum in London, England. I sent an application and was invited to a 50-minute or so telephone call with a lady in France called Clemence, another lady from Strasbourg and a man called John who claimed to have been with Nu Skin since 15 years.

I had originally thought that they were looking for a distributor to get them into big department stores.

I checked the Nu Skin website and saw that the prices are very high. I could not understand how it would be possible to sell the products with a profit. I was amazed to hear from John that he had recruited thousands and thousands of people.

They put real pressure on me during the call and wanted me to sign up as a distributor either for 85 Euros (one-time fee) or 45 Euros (monthly recurring business). It made me suspicious that they insisted on this as the ad said no capital outlay. I was also not interested in trying their product as I use my standard products which are cheaper.

Then I came across your article, thank you very much for your website. Before I

came to your website, I was on another mlm website

<http://mlmtuition.com/kwcp/success/3837/200570>, the MLM mastermind system.

I was suspicious when John told me that people in Hungary are making \$20,000 a month with their products. What is worrying is, that they are placing their ads on jobsites in European countries now.

Thanks again for your website,
Renata L.

Woman wishes she could put an end to MLM deception in South Africa:

I have been reading some interesting information on MLM. I cannot believe, looking back at it now that I fell so hard for MLM (Nu Skin) to be specific. I wish I could expose what is happening here in South Africa as to put an end to the deception but I guess that would be a waste of time since people still believe what they want to believe - and they would much rather believe that MLM is a legitimate opportunity

Anyway, it made me feel better to read your stuff
Kind regards
Lerina

For 31 years, now, I have prepared tax returns for clients, some of whom, try to recruit me into their "great once-in-a-lifetime" business opportunity. At first, my reaction was to be gentle and friendly. Now, when one of my clients tells me he is doing so well, I am bold to say, "C'mon, John... I am the one who does your tax returns, every year!" I have never seen a client profit from one of those "low ticket," product-based, recruiting MLMs!

- Phil F., CPA

Insights of professionals

From a licensed private investigator:

SUBJECT: You guys rock!!

ATTN: Jon and CAI editors, investigators and consultants,

I can't tell you how useful your site is. Thank you so much for proving that ethics, moral standards and common sense are not lost. I have a friend who gets involved with the newest MLM every time a recruiter asks him to come to a meeting. It has become such an issue that it has affected our friendship. I will refer to your website often to counter the nonsense and unethical behavior that traps people like my friend. I commend and thank you for your efforts in helping people who truly are victims of this economic cancer.

I am a local (part time) licensed private investigator (with another regular full-time job) that would love to help you in any way I can and if I have the time. (My time would be free of charge) Please let me know if there is anything I can do to help further your cause. **I will do anything to help the public see these for what they are, because in one way or another they affect all of us.**

Sincerely,
Jake A.

When I wrote Jake to thank him. I explained that my advocacy is all voluntary and that it is heartening to receive such a letter to counter all the deceptions I hear and hate mail that comes my way. He responded as follows:

"You're a good man and the only reason anyone could possibly use to justify sending you hate mail is ignorance. I think a lot of people are playing for the wrong team and just don't know it yet."

"You're a good man and the only reason anyone could possibly use to justify sending you hate mail is ignorance. I think a lot of people are playing for the wrong team and just don't know it yet."

**Doctor warned against MLM product.
And it's OK to work at a job for money:**

Hi, i was doing research about mlm's and found Your site, it was very helpful, The new item is "maxgxl" offering kind of a wonder drug, well supplement. My wife has medical history and thinking this might help her I did research and took the product to her doctor before she even tried it. The doctor said it can cause her kidney damage and maybe failure, so I am not doing this.

I was asked to join and I told them if this helped my wife I could sell the product but I was told to take the product myself and wait on her, then join and get people under me - thats all I needed to do.

I was thinking this could actually help people and to be honest never really heard of mlm but yes i have heard of the pyramid schemes. Anyways thank you for making things understandable for people that don't know too much about these programs.

[Instead of MLM,] hard work and lots of patience is usually what earns the good old American dollar.

Thank you
Ron D.

Attorney mom finds web site (mlm-thetruth.com) helpful in debunking deceptions

I found your website and all of it's information extremely compelling and useful, thank you for it. Here is my dilemma, I hope that you can take a moment to respond.

I am an inactive attorney in California, currently staying at home to raise my 15 month old son (I also have a first grader). I received a call from a friend (also an attorney) telling me about this great "business opportunity" and after speaking with her I agreed to attend a PBR (personal business reception) about this wonderful new deal.

It sounded good of course, but light bulbs went off in my head for various reasons so I stalled my friend (I'll call her "Donna") and told her that I would think about it and get back to her.

Needless to say I did some further

research, found your website (and others) and realized what a huge scam ACN (and others like it) really is. Here's my issue: I really like Donna, she is about 10 years younger than me and I knew her when she was still a law student. She is now a public defender (as I was when I first graduated from law school) and is pushing ACN. She learned of the business from her boyfriend (now her fiance) and even got her mother involved in the "business". She's very into it because she wants to have a family one day and stay home to raise her children but her law school debt is over \$100,00.00, etc ect. and this looks like the perfect vehicle. You get the picture.

I think what pulls the wool over people's eyes with ACN is that they are not selling products (the lotions and potions you describe) but claim to be offering for sale something people use every day, the service on their phones (mobile and landlines) and of course the right to become a representative to sell the service to others. So it seems distinct from an Amway or an Herbalife because people do pay for mobile (and cable and internet) every month, so why not sign them up with ACN and watch the dollars just roll in?

Donna just called me the other day, and asked if I would at least sign up for a service if I did not want to become an "ACN representative". I intend to put in writing exactly why I am not interested but would like to know how can I best refute the claims that ACN specifically makes.

I know that I should just tell her no in conversation and move on but as a fellow lawyer and because she is someone I really care about, I feel compelled to make a strong case to help her understand what a mistake she is making. I shudder at all the social capital she is expending, never mind all the money she's already invested in seminars and trips to conferences (I attended one in Modesto CA and was surprised at how many people were involved!). Of course I will tell her about your website, the Merchants of Deception book and the fact that ACN was barred from "selling" electricity in California in the mid 90's but anything else that you may have on ACN would be greatly appreciated.

Jon, Donna and I are both Latino and we speak Spanish and she keeps talking about how ACN is going to open up in Mexico etc. and I just cringe when I think of all the people who could get taken in by this and by someone speaking to others in their native tongue. It just seems so wrong to scam someone and the fact that we are lawyers which gives us added credibility sends chills up my spine. What really kills me is Donna really BELIEVES. She would never bring her mother (a real estate agent whose business is right where you expect it to be in this economy) or speak with me about this otherwise. She is sincere. We both have always cared about those less fortunate, hence our professional choices.
Vylma O.

Tax accountant never sees clients profit from MLM

I have always found your "Truth about MLM" website to be very informative.

I was first exposed to Amway, by a young recruiter, in the summer of 1977, months after I graduated from the local private university. I turned down the opportunity, then, but the MLM business model has, since then, intrigued me. . . but not in a good way!

For 31 years, now, I have prepared tax returns for clients, some of whom, try to recruit me into their "great once-in-a-lifetime" business opportunity. At first, my reaction was to be gentle and friendly. Now, when one of my clients tells me he is doing so well, I am bold to say, "C'mon, John... I am the one who does your tax returns, every year!" I have never seen a client profit from one of those "low ticket," product-based, recruiting MLMs!

Now, being a resident of California was one thing. Everything changed, in 2006, when I got married, and in January 2007, I relocated to Utah, the MLM

I just cringe when I think of all the people who could get taken in by this and by someone speaking to others in their native tongue. It just seems so wrong to scam someone and the fact that we are lawyers which gives us added credibility sends chills up my spine.

capital of the world! It is unbelievable how many "MLM-Hoppers" there are, out here!

So, though it may be me against the MLM establishment, I published an advisory article online. And, even then, in the last year, two MLM recruiters, who had read my website, tried to recruit me! (Of course, their MLM is different! Yeah, right.)

Phil F., CPA

(Note: For data from other tax professionals, see *Survey of Tax Preparers*.)

Analyst uses web site to debunk the deceptions in one MLM and in MLM as a business model.

Hi Jon –

I found your paper on the internet – the five red flags to identifying product based pyramid schemes. Very informative. I have some friends who are caught up in the Arbonne scheme.

It definitely meets the five red flags and as you said the compensation structure is the key. It has the emphasis on recruiting, you have to pay to play in personal retail volume, there are 6 levels of payout, the "promotions" are based on recruiting rather than by appointment.

The products can supposedly be sold at retail for a higher consultant commission but this is unrealistic because everyone signs up as a non-active consultant for \$29 and can order over the internet at "wholesale". If you want to be "active" you have to do \$100 per month retail volume (\$65 with consultant's discount) and at the bottom commission rung of 4% you have to sell to quite a number of customers to recoup your required minimums – so then the emphasis becomes on recruiting.

To jump to the 8% commission level a \$1,000 in personal retail investment is involved to qualify within a certain time frame – so they have the opportunity to stick you for this more

than once because you buy kits to get

started. They pay on 6 levels – they have a width/depth structure.

I forwarded my friends your paper and tried to get them to understand that what they are involved in is unethical at a minimum...but they just sent me back the published hype – all the typical things you referred to in your paper. I think one of these people got in early enough in the scheme that she may be making some money. These [MLM] companies seem to prey on housewives who don't understand the basics of market supply and demand. They are so naïve that they cannot see the forest for the trees.

Thank you,
Susan S, MBA

Susan wrote later:

Yes, it was an interesting learning experience for me. I had never been approached by something like this. I also didn't remember covering these schemes in any of my course work in my undergrad or MBA marketing classes.

It was the compensation structure that got me suspicious - when I realized that these minimum purchases were involved I started doing a little breakeven analysis and realized how much I'd have to sell at these low commission rates to just make back the money they have you spend as monthly minimums. It really does not become clear until you start to calculate how many people you have to sell to just to break even!

Then it became clear to me that you had to recruit people to make any money. I thought this was very fishy – and so I jumped on the internet and found your article...and then it all really clicked in my brain.

I was reading your article again last night because I found it very interesting. Thank you for responding to my email. I love learning about things like this.
- Susan S., MBA

I will do anything to help the public see these for what they are, because in one way or another they affect all of us.
- Jake A., private investigator

"Oh, you are OK with being a PIMP, but you don't want to be a PROSTITUTE huh?"
- Response to applicant for MLM staff job who didn't want to be a distributor

Insights from MLM insiders

MLM job applicant asked if he preferred being a pimp - or a prostitute!

I worked for Nu Skin enterprises, at the company headquarters for over 10 years. I worked in many departments and had many roles including; commission systems, marketing, competitive research, returns, customer service, account executive, manager and SAP implementation team. I LOVED working for Nu Skin, it was a wonderful work environment!

One day back in 1999 they "downsized." I was hit-up by every MLM around and never joined any, then one day I was reading in the Epistle of James . . . just kidding. Actually I followed some of my supposed friends to other MLM's, one of which was XANGO. I asked for a job but they wouldn't hire me and instead suggested I become a distributor, I said "no" I prefer not to work on the sales side for many of the same reasons you share on your website.

I was speaking to Dr. Pendleton at the time and he said, "What's wrong with being a distributor?" I said it wasn't my thing and he made a statement that really turned me off about ALL MLMs. He said, "**Oh, you are OK with being a PIMP, but you don't want to be a PROSTITUTE huh?"**

I always looked at what I did at Nu Skin as honorable work and employment, but after a twisted statement like that, I find any MLM distasteful and I would like to help in any way I can to "Get the Word Out!"

I am fighting an uphill battle since some of the TOP distributors from Nu Skin and Noni are actually close relative. What direction would you suggest I take with other family members to not get sucked in? It's funny, after ten years in ALL aspects of MLM, I would almost consider myself an

Expert, but when family (in-laws) see the big houses, nice cars and freedom to go and do as they please. . . all my expertise goes out the window. What to do, what to do?

By the way, the DSA has direct sales statistics with graphs and everything but one statistic that I no longer see on their site was what percentage of revenue goes to the company and what percentage goes to actual distributors to pay commissions??? If I recall correctly from seeing it over 5 years ago, over 75% goes to the company and the rest in paying distributors. After dividing the \$17 billion between the 3-400 MLM's, then dividing those numbers by the millions of distributors and taking all of that from only 25% of the \$17 billion, I find it hard to believe ANYONE wouldn't head to Idaho and put all that time and money into Lottery tickets???

Aaron T.

After dividing the \$17 billion between the 3-400 MLM's, then dividing those numbers by the millions of distributors and taking all of that from only 25% of the \$17 billion, I find it hard to believe ANYONE wouldn't head to Idaho and put all that time and money into Lottery tickets???
- Aaron T.

From a former employee who worked in call centers of two MLM companies:

Thanks for your awesome website! I finally quit working at these MLM call centers. I am done forever supporting these terrible businesses. I worked at Nu Skin and Monavie. They both treated me well. But really, it felt like working for the mafia deep down inside and I kept rationalizing it because the pay was good (as a college student).

It is sad when I think about all the people that worked in these call centers that touted it as such a great business. The managers all thought it was the greatest thing and I always wondered how they could be so blind to how many people were falling prey

to the "business." I didn't complain outwardly at work, but I was not a loyal employee on the inside. I despised these companies. The things you have written on your website I have seen every day. Especially the part about self-deception. I really do feel that all of the distributors involved either are corrupt and knew it or just somehow convinced themselves of the legitimacy. Taking a step back it is so easy to see the ethical problems with Nu Skin and Monavie.

Monavie is extremely despicable in my eyes. The juice is absolutely ridiculous. It tastes great but the only claim they can really make is "antioxidant protection." The juice has obscenely high antioxidant protection; more than is needed even.

I have seen so many people on fixed income that are wasting their money on cases of juice. They really will sacrifice other important things because they believe "maybe next month I can earn something" and so they keep buying in. I even saw a few people using their unemployment money on it! There are so many times where I wanted to tell the person on the phone: "You aren't going to make it, please get out!"

The other thing that really gets me is how they cover behind their humanitarian work. Don't get me wrong, I know it is a good thing to help anybody out, and they are doing some good. But around Monavie headquarters, there were pictures of poor Brazilian kids plastered everywhere, and it was just so fake.

Your website helped me a lot in moving forward according to how I felt on the inside, so I wanted to thank you. Thanks for reading!

J. D.

Former MLM insider uses web site as ammunition against "MLM cancer":

I just wanted to let you know how much I appreciate your cut-to-the-chase information about MLM and everything related to it. It has been a continual resource as I am approached often about the next great business opportunity that will make me a

millionaire. I am a web developer and have worked on the inside of a MLM and saw firsthand the continual plot to capitalize on the failure of others. This site has given me ample ammunition against the spread of MLM cancer. Thanks again,
Mick D.

MLMs and pyramid schemes – a distinction without a difference. And an insider reveals the obscene wealth of founders:

First of all, I would like to thank you profusely! With the information from your site, I was able to convince my wife that the "fantastic" Nu Skin opportunity she was about to get involved in was a scam. It shocks me to know all these companies exist and continue to get away with it.

When I asked the rep on the phone yesterday (in a hort/unexpected/initial/sickening call) what was the difference between MLM and pyramid schemes his only answer was that the latter one was illegal. He couldn't counter my argument that conceptually they were the exact same thing. This was BEFORE my research. Thanks to your web-site I will be asking many more probing questions. They will be just to torment him because, as I mentioned, I already convinced my wife of the truth.

Again – My sincere thanks!
Matt E.

P.S. One of the things that I didn't see on your web-site (perhaps it is and I missed it), was the math problem of where is all the money going? For instance, the Nu Skin rep that we talked to said they were a "billion dollar company" which I confirmed per their SEC 10K. However, their web site indicates they have 800,000 distributors. So, if that is the case, each person "sold" \$1250 (\$1 billion/800,000 distributors) on average EACH YEAR. If they each sold that on average, what could they possibly

have made in terms of profit. It just doesn't add up.

You as a reader my find my response interesting:

Matt –

Thank you for your kind words about my site. These little thank messages are my pay for all the years of research put into this – all voluntary. I agree with you that law enforcement is remiss in allowing these scams to continue. Reasons for their negligence include the unwillingness of victims to file complaints. My explanation for the silence of victims of endless chains is outlined in my "Frequently asked questions" – linked from my home page.

So (you asked) where does the money go? It is truly a math problem, which is why I labeled the page "Nu Skin's Naughty Numbers."

If you read that - and the "REPORT OF VIOLATIONS" of the FTC Order for Nu Skin to cease its misrepresentations, you would have a pretty good idea of where the money goes. In a nutshell, the bulk of the money goes to the company founders and officers,

those at or near the top of the endless chain of recruitment, and those who got in at the beginning of the recruitment chain in any given country, etc. So I would estimate that overall, 90% of the payout goes to less than 1% of the

"They can't be bad people, if they do such good things." (MLMs donating to charities) To use an appropriate metaphor – If you rob a bank and then give 15% to charity, the bank robbery is OK, right? Sure. [JMT]

head honchos.

To illustrate, a family source (an ex-husband) reported in a confidential interview that one of the founders, Nedra Roney, includes among her holdings at least ten homes:

"I am just guessing, but I have a fairly good idea. The one in Sandy, Utah, worth about 6-7 million, one in Deer Valley; about 4-5 Million. One on Maui or on Oahu: about 3-4 million. On Kauai she has an amazing house worth at least 8 million. We bought also that together like the one in the Trump Intern. Tower, worth now about: 4.5 million.

One huge penthouse in the Time Warner Building, also on Columbus Circle, worth about 36 million. A lot of land in Deer Valley worth at least 5 million. Land in the Oakley is worth anywhere between 10 and 30 million, depending how you handle it. A condo in Park City of about 1 or 2 million, the Oakley Cabin; at least 15 million. A ranch in Oregon: 3-4 million, a farm in Spanish Fork, Utah: 3-4 million. Land in California, my guess is as good anyone's. She owns a lot of stuff I have never seen. My friends have seen the paperwork and it is quite impressive. She also bought and sold a \$17. million condo on 515 Fifth Ave. while I was with her. Do you get the drift...?"

A magazine article reported she also owned a Gulfstream II private jet.

My source (an angry ex-husband, so you can take it for what it's worth) wrote me that she has also gone through a succession of 9 husbands, the last a male stripper.

Her brother, Blake Roney, is reported to be worth at least \$800 million. Other key figures have accumulated tens of millions each.

Of course, these leaders have initiated and donated to humanitarian causes, and they use this to justify their exploitive scheme. And believe it or not, many in the public and the media buy into this thinking. "They can't be bad people, if they do such good things." To use an appropriate metaphor – If you rob a bank and then give 15% to charity, the bank robbery is OK, right? Sure.

And as for the 3+ million distributors (since the company's founding) who have paid to get into this opportunity of a lifetime? According to my calculations, based on Nu Skin's own reports, 99.94% of the company's recruits lose money, after subtracting required purchases and the bare minimum of operating expenses. Less than one in 3,500 distributors ever turns a profit. Perhaps less than one in 20,000 earns the "substantial residual income," also referred to as "permanent income" – that is promised to new recruits who are deceived into investing in this money trap.

BTW, this is not just Nu Skin. I have studied over 300 MLM programs and found

a similar pattern with every one for which I could obtain data. You would be doing friends and family a great favor by using the "Answer cards" on my site to warn them against ALL MLM/chain selling programs. (It refers them to my site for more info).

Impact of MLM on individuals and families

I am researching MLM as I have been approached to sign up for eXfuse – another better health and wealth work@home story. I would like to extend my very grateful thanks to you for giving me the truth about MLM. I could have made an expensive mistake.

God bless you.

Debbie

mlm-thetruth.com frees woman sickened by MLM madness.

from Erica

Everything on your website has been going through my mind in the past month. About 2 months ago I started on my "MLM mission" in Arbonne. I was completely head over heels with the thought of "residual income" just for "sharing" with others how they could make "residual" income. Now I am just sick about the whole thing, especially because a close friend of mine signed up under me.

Every night I would cry just THINKING about having to go talk to people about the "opportunity". I was being forced by the whole MLM thinking to talk to friends I haven't been in touch with and pester them or "drip" on them as my upline told me.

I was continually told by my upline that I was feeling down because I was getting out of my "comfort" zone or because it was building my character... I was more stressed out than I have been in my whole life!!

I had so much money into it that my husband didn't want me to quit. We even had to put MORE money into it at the end of the month so we didn't "lose" our

qualification quota. The night I spent another \$450 on our credit card to keep our "district qualification" I broke out in hives, I have never been allergic to anything in my life, I don't think it was a coincidence.

So, after crying every night for a month and being completely sick about life I have decided to stop the madness! Now I feel like I am FREE! It's amazing, I can talk to people without feeling the weight of "did you talk to them about ARBONNE???" on my shoulder. I can't tell you the relief I feel! I regret that I got my very good friend involved and I am afraid of the rift it may have put in an otherwise great friendship. I am not sure how I ever got talked into this or how anyone stays in it! I appreciate your insight and humor...

Thanks,

Fancy Free!

Web site saved man's mother from disaster. From a business and economic standpoint, MLM is "a business model that makes absolutely no sense."

I am very thankful that this site exists.

I am now 30 years old and I have just sold my first successful (legitimate) business. I have been approached by several friends and families members to join an MLM in the past year. Of course having my own successful business made me a prime target for recruiters.

I was not interested in their schemes because my experience helped me realized that there are much easier ways to make money than in an MLM. I also enjoy the study of economics, and think that peddling goods and services, that can't be sold in stores, to friends is unproductive and potentially harmful to society (but that is a different issue all together). About two months ago, my Mother, who I thought would never want to do anything like participate in an MLM, ended up joining one. I told her I was very skeptical but that if you worked really hard you could probably make a little bit of money.

My business partner, from the business I just sold, recently came to me asking my

opinion of "pyramid schemes." I knew exactly what she was saying. One of her friends was actively trying to recruit her to an MLM. Knowing her personality I told her that she should at least stay away from the business opportunity. We talked about how interesting it was that MLMs were becoming so popular and that nobody really knew anything about them. We also talked about how it would be interesting to do some research and put together a documentary (she is interested in documentary film making) looking at the history and the sociological phenomenon that they represent.

While I was looking for a little bit of information on MLMs, I found your page through Wikipedia. I also read your 44 page paper "The 5 Red Flags: Five Causal and Defining Characteristics of Product-based Pyramid Schemes, or Recruiting MLM's." It didn't take me long to figure out that MLMs were much worse than I had thought. I thought about it from a business and an economic standpoint and I realized that this business model makes absolutely no sense. The questions that I asked myself were: Where is the money coming from? If no one wants to be at the bottom level, won't behavioral patterns sway people away from joining at all?

Anyway, I immediately sent my mother the link to your website. Having experiencing the craziness that is the MLMs industry your website made her realize that she needed to quit immediately before she spent another dime. I cant thank you enough for the information. It may have saved her from disaster. I am going to do what I can to spread the message to others. Best regards,
Noah A.

From a woman whose family for decades has been torn apart by MLMs:

Dear Dr. Taylor,

Thank you so much for providing the truth regarding MLMs. Pyramid schemes have torn my family apart on many different occasions. My dad was involved in Dare to Be Great in the late 60's/early 70's. Now several of my family members are involved

in Lifemax. It hurts more than you can imagine. Seeing everything get taken from us as children and now seeing the potential for it to happen again to my younger sister who has a 10 month old baby.

Perhaps what's worse is knowing so many people who are hurting in this bad economy are desperate and are turning to this. And how the scammers use God and "the chance to help starving people around the world"! It's AWFUL!!!

Just a quick question, I noticed now when I Google "Lifemax and pyramid schemes" that I can no longer find articles about people who've been burned (I know they're out there). Seems that Lifemax has purchased all the key words and used Search Engine Maximization to continue to sell their "lifestyle" and silence the truth. They're deceiving people even more than ever with articles that are disguised as legitimate reviews. So, sadly, people will have a hard time getting the facts. Is there any solution or recourse?

I'm lucky to have found your site. I will keep it in my files for backup when I need it. Best regards,
Paige B.

Woman loses house, divorce money, and \$150,000 participating in 2nd MLM

For just some quick introductory back story of my relationship to MLM, my mother began playing the game with Excel telecommunications when I was about 12 years old. It was more than bizarre. She put 500 dollars on a credit card to buy miniature phone magnets, while I had to be on the free lunch program at school.

But at age 12, it's hard to tell your mom that she's being scammed. And of course I wasn't as equipped to do the research as I am today. Then flash-forward about 10 years, where she divorces and moves in with her mom. For a while she works normal jobs, and seems more happy than I've ever seen her. We all laugh to ourselves in relief that she has dropped the cultish Excel, but don't bring it up, assuming that she herself is embarrassed about her participation.

Then one day she drops all that, and relapses into Xango. When we finally confronted her about MLM, she had already

spent all of the money she had gained in the divorce, lost a house, and went into what we are estimating is around \$150,000 in debt.

I know you're not going to believe this, but in almost every other facet of her life she is an especially rational person, but this one sector has her so brainwashed we don't know what to do.

Being as how you are one of the primary - or at least most visible - specialists on decoded MLM rhetoric and practice, I KNOW that you must get these emails often, so let me also say upfront that I'm not writing to beg you to fly here and deprogram my mom, though we (my brother and I) are desperately attempting to do so.

In all my years of education, I never researched something as intensely - and neurotically - as this company and its mode of operation, mostly because no grade has ever been as important as the mental health and well being of my mother.

In a frantic couple of months, I had compiled my research (beginning with Excel and ending with Xango) into a power point presentation that became our two-day long intervention. It was presented in a way such that I thought this was information she was unaware of, and tread delicately, as I felt like I was about to destroy something she loved.

It seemed to break her emotionally, and when it seemed she was going to quit, she left on vacation, and came back, defiant like I had never seen her before, insistent that we are never allowed to bring up this topic again, and that she would continue to run rampantly into debt along with this magic juice Xango. We are the dream stealers. . .

My brother and I have had the unique experience of borrowing my mother's DVD's and training materials provided by this company, and we noticed some peculiar things, one of which is the introductory DVD they give you when you sign up. On the DVD menu, there are 4 videos to choose from. When you play all, it plays the first 3, each of which are maybe 5 minutes long. The first two are essentially the regular MLM hype with limos and yachts, and then the 3rd one basically a commercial for training material for you to buy. And then oddly enough...it just turns off. That's right, the DVD TURNS OFF.

But wait, wasn't there a 4th video? So you go back, turn it on, and scroll down to the 4th video and press play, and it's about an hour-long video giving you the legal side of what can and can't be done in MLM, what health claims can and can't be made etc. - basically the part of the video their lawyer made them put in.

We made my mom watch it, because she admitted she never had, and it absolutely decimates the way this business is conducted. I mean, there is NO WAY any of these reps have actually watched or abide by this section of the video - not that that's new to you... but it made me wonder if that becomes a legal issue, deliberately hiding that sort of thing.

You might not also be aware of the family ties within this company. For instance, Joe Morton and Gordon Morton are both executive vice presidents. Oddly enough their brother David Morton, is who they often cite scientifically and consider the "foremost authority on the mangosteen fruit". He insists that he doesn't sell Xango or the mangosteen, though it hardly matters with the never mentioned but obvious family ties.

Even worse, the "Doctor" they cite even more often is J. Frederic Templeman. They even sell DVD's of David Morton and Dr Templeman interviewing each other in this obviously scripted dialog hyperbolically praising the juice. But what I was absolutely shocked to find is that Dr. Templeman is David Morton's FATHER-IN-LAW. (I was first told this from someone, and confirmed it after finding David Morton's wife's Facebook page). It's insane, to watch these videos again where they are introduced as if they only know each other from the respected field of mangosteen research.

Then I used the website "archive.org" to go back in time and see what changes had been made to Dr. Templeman's website over the years of its development. He has a Question-and-answer section, where interestingly, he changes over and over one question:

Q. Mangosteen is bull crap. How much did they pay you for to promote it?

A.2003: in answer to your question about how much I am paid to promote this fruit - the answer is Nothing.

2004: I receive revenues from the sales of my books, but I am not a distributor of a mangosteen product, nor an employee of any company producing mangosteen supplements.

2005: by 2005, this question was removed entirely.

I also used the site "Opensecrets.org" to track their political contributions, and unsurprisingly they are the largest contributor to Senator Orin Hatch, and gave boatloads of other money exclusively to Mormon politicians (Mitt Romney, Bob Bennet, Mike Simpson). Additionally, there was \$30,000 lobbying for the food and beverage industry - though I have no idea if this is standard for beverage companies to do.

Finally, most shockingly, I found this: http://rs.xango.com/downloads/xango4.0/2007_income_statement.pdf

Please take a look at that, I came across it by reading through the Xango legal contract, which talks about how it is illegal to inflate the average earnings one makes. But please tell me, am I reading this right? Is this really an official Xango document stating that about 97% of its reps make less than \$2,000 a year? I mean, that's what I expected, but is this the smoking gun?

And one final question, If I were to find myself going up against this company in any public forum - say I make and widely distribute a YouTube video detailing these findings, should I expect them to be more scared of me, or is this like speaking against Scientology, where the army of lawyers come and destroy your life? I'm only asking because it feels to me no less cult-like.

If any of this is helpful then I am glad to offer it, and if there is any complimentary information you have learned, I would love to know about it. Either way my sincerest appreciation for your dedication and your time,

-Richard

mlm-thetruth.com reveals deceptions and other problems typical of MLM

5 Red Flags best detection method for MLM fraud:

In 40 yrs. of studying MLM fraud I have not found a better detection method than the 5 red flags found at – mlm-thetruth.com
Frank Thomas

Man thanks mlm-thetruth for keeping money in his bank account

First off, let me say that your **site is an absolute wealth of knowledge on MLMs, and is what started to make me question a recent proposal that sounds a little too good to be true.** [After reading some of your reports], I went back and listened to the compensation plan again on UCI's webinar. They specifically state that selling the energy alone is a waste of time, that you need a "team" to get the most out of the program. I am officially dis-interested now. **Thank you very much for . . . your vast, knowledgeable website, and the money you kept in my bank account, both long term and short term. I will definitely take a long at your 1,357 ways to make more money [than MLM] list.**
Dan M.

Unmasking MLM deceptions via mlm-thetruth.com

Thank you so much for all your hard work in "Un-masking" the truth about these scams!!!

I almost got involved with Fortune High Tech Marketing because of a friend. Wow!!! You hit it right on the head. Your "Typical Misrepresentations Used In MLM Recruitment" put it to rest for me. THEY ALL FOLLOW THE SAME UN-GODLY LIES. Just to make money off the reps. It's a numbers game. The more people under

you, the more people get ripped off to pay you!

I wish the Federal Government would put a stop to these people! Or at least the "Federal Trade Commission".

- John T. (not Jon Taylor)

MBA grad sucked into 3rd MLM in seven years, sinks into depression

My son lives in California, has an MBA and has been involved in network marketing for about seven years. At one point he had a six-figure income and thought the sky was the limit (Cyberwize). When his upline decided to change network marketing companies due to a disagreement and pending lawsuit, my son followed with financially unfortunate results.

Now he and the same upline are in a third company. My wife and I have been pretty much supporting him for the past nine months. He keeps thinking that he will experience a 'break-through' and be on top again, but he seems very depressed some of the time. We are very worried about him.

Do you know of anyone who might help him to see the reality of the MLM lie? I have tried to reason with him, asking him to discuss his situation with a job counselor on several occasions and offering to pay for the counseling. No luck. It seems to me that MLM is very much like a religious cult and that victims like my son will require deprogramming by a professional. I'm sure he won't listen to me and has a pretty closed mind at this point.

MLM con men

I do appreciate your website since finding it last week. There are many con men out there and you seem a prominent force against them.
Mike S.

Woman bombarded by friends wanting to practice presentations on her.

Thank you for this site. I like how organized it is and not full of ads and other bogus

marketing. I have seen enough of that.

I hope this site can help my friends. I have been bombarded with Primerica and Agel bull crap, and I have been sending this link to my friends who are trying to "practice their presentations" on me.

God Bless,
Stephanie B.

Prospect at MLM meeting did not feel good vibe about the MLM hype:

Dr. Taylor,

You offer outstanding insight on MLM's. I recently had been invited to attend a meeting on Fortune Hi Tech Marketing. I went and listened. I didn't feel a good vibe about what they were telling me, so I did some research and found your website. I found it very informative and interesting. I made the conclusion not to join FHTM. . . It appears that the "pay for play" aspect is very much involved in this MLM.

Tim W.

MLM obfuscation compared to Big Blue (IBM):

In the brief time that I have been "communicating" with a bevy of "Coaches" at Nu Skin, making the obligatory cold calls, listening to the various audio programs that are supposed to "inspire" me to "Blue Diamond" status, I can only say that if my very brief experience could be made into a movie, it would be titled, "Willey Wonka and the Kool-Aid Factory".

Rarely are the products ever mentioned and as far as the Coaches providing me with any type of Standard Operating Procedure (Manual or online version), the total lack of this kind of important resource

I wish the Federal Government would put a stop to these people! Or at least the "Federal Trade Commission".
- John T.

reminds me of what once was said about how IBM or Big Blue used to indoctrinate and "groom" their executives like they were mushrooms, or in plain English, " KEEP

THEM IN THE DARK AND FEED THEM BULLSHIT". I hope that your website [is seen by many MLM prospects] and thanks for your work on behalf of all of "US".
Lee H.

Time to start a real business:

Thank you for your website. It opened my eyes to a lot of things! I am very young lady but had about 30 jobs in my life and scammers just love to take my money...

Its time to start my own business (not MLM). Thank you for ideas! ("1,357 Ways to Make More Money than in MLM")

Best wishes,
Irena G.

Red Flags go up when a skin care line is promoted with typical MLM hype:

I personally would like to thank you for shedding light on MLM schemes. I read through your entire article, as I was suspicious of the "business opportunity" I had just become aware of through my friend, who invited me to a meeting earlier in the week, and today to an event with a motivational speaker.

Right now I'm between jobs and decided to investigate this company she's been telling me about, as I've always been interested in health and beauty for women and saw this as an opportunity to perhaps generate some extra income.

My BS radar is pretty high and a couple of things said today and earlier in the week bothered me - when the speaker mentioned he "was doing it all for the glory of the Lord." Please, this is the Bible belt but that doesn't legitimize any business venture for me. Instead it raises a question of hypocrisy and doubt in my mind. I don't like when people use the "Lord" as some kind of tool to

convince me of their sincerity. Frankly, it convinces me otherwise.

Also, when much of what is discussed is "how much you can make" - that bothers me too. Also, saying that "You owe it to your children" - using an emotional tug - that didn't sit well with me, either.

The product was barely discussed – the potential to change women's lives by using it – and if this product was created by women and is all about women, why were so few women actually speaking? And the ones that did speak of, I wasn't very impressed with, as I've been in sales myself for awhile and am a pretty impressive speaker myself, so it takes a lot to get my notice. With all that said, I decided to come home and do a bit more research on the topic and I was glad to find your website. Now I want to discourage everyone I met - to not get involved with this venture!

The ladies who invented Proactiv - skin regimen for acne - (Drs. Rodan and Fields) have now developed a skin care line. This legitimizes the product. Their products were previously in high-end department stores but the doctors decided to take it direct market - "in order to help women succeed." I found that all of your red flags were waving, from what I understand of the program thus far. The "consultants" have spoken very little of direct selling to the consumer, and very much of developing your downline in order to generate the high incomes.

Much was made of the fact that "we were getting in on the ground floor" and what a big opportunity this was. Frankly, I want to see facts and figures, and am not impressed by hype. We were told that we would be the millionaires, as this would be very, very big and since it was so new, whoever got in first would benefit the most. We were told that the product line was backed by beauty giant Estee Lauder.

**I almost got involved with Fortune High Tech Marketing because of a friend. Wow!!! You hit it right on the head. Your "Typical Misrepresentations Used In MLM Recruitment" put it to rest for me. THEY ALL FOLLOW THE SAME UN-GODLY LIES. Just to make money off the reps. It's a numbers game. The more people under you, the more people get ripped off to pay you!
- John T.**

The product was further legitimized by Drs. Rodan and Fields, who had already found much success with Proactiv, so brand-name recognition was already in place.

Thanks again for the information presented on your website; I also ran the scheme by my business mentor and he felt the same way about it that I did. He said - "Tell your friend, that you had heard of millionaires birthed by opportunities like this, but had never actually met one. Say - I am probably passing by the chance of a lifetime, but when you get rich off this, come and talk to me - I'd like to hear more about it." So I guess that's what I'm going to tell her, basically.

Best regards,

Diana C.

MLM version of chasing easy wealth seems immoral

John I just wanted to thank you for your website and info. I have been out of work for a short while and an mlm recruiter came to our house. Out of desperation I chose to sign up. That night I got a bad feeling about this, just to good to be true. The recruiter happened to be a member of the church so I tried to suppress my feelings and go through with this or at least give it a shot.

My wife and I attended a meeting where there was all sorts of people overly excited to be chasing easy wealth. These people seemed fake almost rehearsed. Then a million dollar earner who got up to speak, who was also a member of the church began talking about education and how it really doesn't matter if you have an education

any more.

Then I thought to myself, I remember a church leader speaking to the church about how important it is to get an education. I told

my wife, anything that would detract from what church leaders had said has to be bad.

Then I found your site, and the red flags were there. I told the recruiter that I wanted no part of this and that I didn't feel like getting rich at the expense of losing my family and friends and that I felt that MLM just isn't the moral thing to do.

The recruiter then told me that the million dollar earners that had spoke at the meeting were good church members, but I felt that just because it is not illegal does not make it ok or a moral thing to do. I could have lost more than 99 bucks thanks to your info. I will take this as a lesson learned.

- Michael R.

MLM scams harm individuals and society financially, relationally, and morally

Recently a close friend of mine got involved with ACN with her grown son and husband. She has turned into a brainwashed zombie and because I'm less than enthusiastic about it (I haven't said anything disparaging, though) our relationship is slowly waning. She's bought into it hook, line and sinker. It seems that at this point she would just rebuff my critical analysis. It has spurred me to do a lot of research, however, and I'm indignant to see it has become a global phenomenon to the detriment of all.

Thank you so much for hosting this website. **The truth about these scams needs to be presented as an antidote for the lies of illusive riches which only appeal to ones baser nature. I feel these scams harm financially, relationally and morally to individuals and society as a whole. It seems the cancer is growing and spreading to developing world which can ill afford to slow their economic progress.**
Thank you

Critics of mlm-thetruth.com

Not everyone is pleased with this web site, as the following attests:

Dude you are a complete hipocrit. Get a life. 99.9% jajajajaja. Way to over react. On top of that, u have created 40, of these so called scams, nice job you ass

- Unnamed

[Unnamed is likely referring to Jon Taylor's having been involved in 40 business startups before getting into MLM. However, all were legitimate, and none were MLM.]

RE: Get a job, Taylor

You are so out of wack with your so called "experts" and research that you should be held liable for the crap information you peddle. You are so mis-informed about what you spread over the Internet! God, you need to get a life.

Business Millions

Blah blah blah...Jon, you and I both know that the only people who don't make any money in Network Marketing are the ones who don't do anything! The failure rate is no different for Real Estate agents, life insurance sales, any profession that you are an "independent contractor". It's simple, we were never programmed to work for ourselves, people just don't want it bad enough. . .

Network marketing is easy, the more you show the more you make...period. Product does not have feet, you need to share product, share the opportunity and not care who say's yes or no. It's not about the answer, it's about the process!

Man I wish somebody would lay the blame where it needs to be!

John

I THINK YOU ARE A LAZY MYOPIC LOSER! PEOPLE DO NOT MAKE MONEY FROM MULTI-LEVEL-MARKETING IF THEY FAIL TO BUILD A FORMIDABLE ORGANIZATION JUST AS YOU WILL NOT MAKE MONEY FROM A PRINTING FRANCHISE IF YOU FAIL TO ACQUIRE CUSTOMERS.

IF ANY MLM BUSINESS PROMISES YOU A GET-RICH QUICK FORMULA IT IS A SCAM, BUT MLM ORGANIZATIONS LIKE AMWAY, ACN, AVON ETC DEMAND HARDWORK AND PERSISTENCE FROM THEIR REPS IF SUCCESS IS TO BE ACHIEVED. IF A REP FAILS TO DO THE RIGHT THING, HE/SHE WILL NOT GET RICH JUST BECAUSE HE HAS ENROLLED IN A MULTI-LEVEL-MARKETING ORGANIZATION.

ACN AS A MATTER OF FACT IS THE BEST BUSINESS MODEL IN EXISTENCE AT THIS POINT IN TIME, IT DOES NOT MATTER IF LOSERS LIKE YOU SEE IT OR NOT.

I HAVE FRIENDS WHO HAVE BUILT UP ENVIABLE FINANCIAL FREEDOM FOR THEIR FAMILY THROUGH ACN, SO IT IS SAD THAT YOU GO ON CRITICIZING WHAT YOU HAVE NOT EXPERIENCED SIMPLY BECAUSE YOU HAVE TALKED TO PEOPLE WHO ENROLLED IN ACN WITH WRONG PERCEPTIONS AND FAILED TO FOLLOW THE RECIPE AND THEREFORE FAILED TO ACHIEVE ANY RESULTS. WHY DON'T YOU TALK TO THOSE WHO HAVE CHANGED THEIR FINANCIAL FUTURE THROUGH MLM BUSINESS MODELS AS WELL? I BET YOU THERE THOUSANDS OF THEM AROUND THE WORLD. I LIVE AND INTERACT WITH SOME OF THEM.

IT IS AMAZING HOW LOSERS LIKE TO CONGREGATE TOGETHER AND SEEK ATTENTION FROM PEOPLE IN ORDER TO HIDE THEIR INEFFECTIVENESS AND LACK OF PERSISTENCE.

MY CHALLENGE TO YOU IS TO ENROLL AS AN ACN REP, FOLLOW ALL THE

RECIPE THE COMPANY HAS PUT IN PLACE, AND ENDEAVOR TO BE COACHABLE, IF YOU DO ALL THESE THINGS AND ARE ABLE TO BUILD UP A LARGE ORGANIZATION OF REPS AND CUSTOMERS BETWEEN 2 - 5 YEARS, AND YOU FAIL TO BECOME FINANCIALLY FREE, THEN GO AHEAD AND CONDEMN THE COMPANY; NOBODY WILL BLAME YOU.

OTHER THAN THIS, JUST SHUT UP AND GET A LIFE!
JERRY O.

Great job of destroying the dreams of thousands of people.. Yes there are problems with some MLM companies however the numbers you quote just don't add up..billions of dollars in sales by direct marketers sort of tells the tale.. In addition, why don't you attack Wal-Mart..they have hundreds of stores that hardly pay a decent living and make millions of dollars off of people..there is a Sears outlet store in about every small community..of course all those independent gas station operators that thought they were going to make it big and went broke tryin to.. You have some type of income that depends on the efforts of others unless you farm and then someone has to get paid for the seed they sold you.. The point is..most MLM companies simply offer an opportunity to be more in control of your financial future via a REAL business..some make it..some do not..most come into the business thinking that they are going to get rich in a few months and fail..either because they did not work the business or they did not work and probably fail at most of what they have tried in the past.. What you do is throw water on the hope of some people because they think you are a doctor and know what you are talking about.. I DON'T!!
Robert B.

You have too much time on your hands. I found most of your information to be inaccurate. You need to talk to Donald Trump or Robert Kyiosaki or anyone who actually has had business success. You clearly have no idea what you are talking about. I would invite you to take a true look at a more upscale, growing and successful company and see if all those points apply--you'll find that they don't.

Donna W.

I am just amazed that such an article would attempt to be out there after many years of MLM winning the battle initially fought by the granddaddy of MLM, Amway over 60 years ago. Maybe someone should explore what this industry has done for hundreds of thousands of people worldwide and thus making families more focused and together. There is nothing illegal or a scheme with MLM. Read the next billion dollar trend to see the trends and get your records straight and begin educating people the right way.

Rosa S.

RE: Loved your site!
 You know, you seem to be a pretty smart guy...but don't you have better things to do with your time?
 Do you know why most network marketing company's fail people? It's because people don't work...they are lazy!!!

Paul

One of the unfortunate things that your site doesn't take into account is that there are few if any small businesses that make any kind of profit within the first 5 years. The only real opportunity for regular people to start their own business is in network marketing. A legitimate networking company will allow someone to start a business for less than a hundred dollars, when a typical small business takes more than a hundred thousand. And yes, most of not all of the money made should go back

into the business in order to continue making money, but this is true of all small businesses for the first several years.

Marissa D.

[NOTE: Marissa should read some of the statistics from the Small Business Administration and other agencies that help with small business startups. Based on reliable statistics, all four of the above four sentences are false.]

RE: Your website is bul-sh...!!

This website should called mlm-thelie. There may be some truths in there but the idea of the website is completely wrong. I would suggest you to evaluate more network marketing companies. And I mean "network marketing companies". Don't put network marketing and mlm together. That is just bull.
 Now put that in your testimonial page!

Hung T.

Can you help me?

hello, uhm, how sure are you that what you presented is true? i know people that are rich from mlm, how can you say such things?
 do you know why most people fail? because they didn't do this right. why are you so negative? because you couldn't do what some people can do? not everyone can succeed, but there are +2000 blue diamonds. please explain to me why... i just don't get it...

Sydney T.

RE: MLM IS THE BEST BUSINESS!

I am writing to you because I am going to prove you WRONG! You obviously are to incompetent to understand what a MLM is. I became a wellness consultant for Nikken back in the beginning of June and this was a life changing decision I have ever made! I received a \$2,100 commission check the next month my commission check was

\$3,200!! I am continually earning a large income and it was because I joined the most amazing MLMs ever!! The people who just start out in a MLM can be very successfull!! If this was a pyramid scheme I would not be making this much money!!! MLMS are the most rewarding business opportunity!!!! I will speak this truth to the very end of my life!!!

David R.

Nikken Wellness Consultant

My response to "Nikken Wellness Consultant":

David –

If a business is legitimate, one will be able to report profits on their income taxes.

Please write me back in a year and tell me what you reported as net profits from your MLM.

JMT

NOTE: David did not write back, and did not respond to a follow-up inquiry two years later.

Your an idiot! You are ignorant! A website dedicate to that! Get a life!

Kelly L.