

Appendix 7E: MLM Profit and loss rates vs. various income options

SEE CHART on second page.

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	Wage earner	Legitimate direct selling	Small business	Classic no-product pyramid scheme	Gambling - roulette at Caesar's Palace in Las Vegas	Product-based pyramid schemes, or recruitment-driven MLMs
Approx. % of participants who may have profited after expenses	100%	80%	39%	10%	2.9%	0.4%
Approx. % of participants who lost money after expenses	0	20%	61%	90%	97.1%	99.6%

NOTES - explaining each option:

Wage earners typically do not have out-of-pocket expenses that are not reimbursed by employer, so they typically do not lose money.

Legitimate direct selling (not MLM) profitability rates vary widely. Direct selling has largely been replaced by discount retail outlets and the Internet. However, some direct selling does occur, such as some insurance and investments. I spent many years in direct selling and would not consider a sales opportunity for which I could not sell 80% of pre-qualified prospects. In legitimate direct selling programs with which I have been familiar, salesmen are not required to buy the products or to pay for sales training. So they would only rarely lose money, except for unreimbursed travel, etc. (When I sold encyclopedias, I did not have to buy a set, and when I sold insurance, I did not have to buy what I sold. For this report, I am arbitrarily using what I consider a "safe" profitability figure of 80% for a trained salesman.

Small business failure rates are not as high as MLM promoters claim. A study by the NFIB (National Federation of Independent Business), using U.S. census figures in 1999, found that approximately 39% of small businesses are profitable over the lifetime of the business.

Classic no-product pyramid schemes are usually 8-ball (or 1-2-4-8) schemes in which some participants recycle into a new pyramids of participants repeatedly, while some drop out. Approximately 10% profit from the schemes, ranging from approximately 7%-13%, depending on whether or not they recycle into new pyramids.

Gambling - Odds are for a single bet on one number at the roulette wheel at Caesars Palace in Las Vegas (Statistics provided by Ceasar's Palace April, 2001)

Product-based pyramid schemes, or recruitment-driven MLMs. The percentage of people who may have profited is so low (0.004, or 0.4%) that it does not show on the chart. For more information on the abysmal numbers for MLM participation, go to mlm-thetruth.com for statistical reports, including the e-book "The Case (for and) against Multi-level Marketing," chapter 7.

Income Options for Participants

