

**The
Myth of
"Income Opportunity"
in Multi-Level Marketing**

2008 Update

with Income Analysis of

**Ten
Multi-level Marketing Schemes**

and

Income Analysis of

**Amway/Quixtar
and its Secret "Tools" Business**

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**Pyramid Recruitment
Schemes Analyzed**

**Arbonne
Cyberwize
Free Life
Herbalife
Melaleuca
Nikken
Nuskin
Reliv
Usana
Your Travel Business**

and

Amway/Quixtar



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Part 1: Overview and Conclusions

This report is based upon the statistical disclosures of ten major multi-level marketing (MLM) companies and the largest of all MLMs, Amway/Quixtar, regarding the *actual* payouts to their participants. The companies analyzed include five that are publicly traded on stock exchanges. These include Herbalife(HLF), Nuskin(NUS), Reliv(RELV), Usana(USNA) and Your Travel Business(YTBLA.OB). Total market capitalization of these five is \$4.25 billion in June 2008.

The total revenue of the eleven companies exceeds \$12 billion. Approximately 9 million people worldwide¹ invest in these companies *each year* as sales representatives and their direct purchases and fee payments represent nearly all the companies' revenue. *This report reveals that 99% of all sales representatives each year in the sample of companies analyzed earned on average less than \$14 a week in commission income. The income average in 10 of the companies for 99% of the sales representatives was less than \$10 a week.*

All the companies experience at least a 60% churn rate which means that at least 6 million *new* people are enrolled in the schemes each year. The annual recruitment of these six million consumers is based largely on the companies' offer of an "income opportunity." All nine million consumers sign legally binding contracts as independent contractors for the MLM companies enabling them to participate in the schemes' advertised and promoted "business opportunities." The contracts authorize and provide incentives to consumers to potentially earn financial rewards from selling the companies' products and from recruiting other sales representatives into the schemes.²

This report reveals that the income opportunities presented by all the companies are essentially non-existent and are falsely promoted. In total, the recruitment programs of the companies studied in this report result in *billions* in consumer losses. These losses are transferred to less than one percent of the participants positioned at the top of the sales chains as "commissions."

These huge consumer losses are directly attributable to the schemes' business models which include "endless chain" or pyramid recruiting, an essentially non-existent or unfeasible retail sales opportunity and the companies' false and misleading income claims.

The analysis of the hard data obtained from the MLM companies is bolstered by expert witness and consulting work on numerous MLM/pyramid scheme court cases in state and federal court; meetings, phone calls and email correspondence with thousands of consumers who are or have participated in many different MLM companies; collaborations with regulators and attorneys in

¹ The aggregate revenue and number of distributors are best estimates, conservatively calculated. As will be explained in the report, multi-level marketing companies are notorious for presenting false or misleading data. Six of the companies in the report are privately held and several, as a corporate policy, do not reveal sales figures or current distributor counts. In those cases, figures are estimated from inside sources or media reports. In cases where the private companies do report data on revenue or recruitment, the figures may be exaggerated, or otherwise inaccurate. In the cases where the companies are publicly traded, the data comes from 10K filings to the SEC. Even in these instances, the total numbers of distributors can be significantly altered by limiting them to "active" or other arbitrary categories and excluding others.

² The most conservative calculation of losses would include only entry and related fees, business costs incurred, marketing "tools" that were sold to the recruits and the percentages of the prices for products that were transferred to the upline recruiters as "commissions" (approximately 40% of their total price). Using these criteria ignores lost time, displaced income and overpriced goods that were purchased mainly due to false incentives and promises of income. Even within these limits the consumer losses would exceed \$5 billion. More than 99% of all participants lose money.

several countries, and diligent investigations into pay plans, contracts, and policies of numerous other multi-level marketing (MLM) companies.

The data and the analyses compelled the following conclusions:

Mythical Income:

- ▲ *Virtually all multi-level marketing companies are financial traps, scams, and cleverly disguised pyramid schemes.*
- ▲ *99% of all people that join them lose money.*
- ▲ *The "MLM Income Opportunity" is, therefore, a myth, a lure and a lie.*

The claims of offering consumers a viable "part time income" or an "extraordinary income" greater than most other businesses or occupations are the hallmark attractions of multi-level marketing (MLM) companies. It is also their greatest defense against persistent charges of pyramid scheme fraud, illegality, deceptive promotions and even mind control.

Absence of financial harm, i.e., broad-based financial *benefits* among MLM participants, would be proof against charges of fraud and deception. Legitimacy of the MLM "business," therefore, hinges decisively on the truthfulness or falsehood of its *income* claims.

This is a question that determines whether MLM is a real industry and a true business opportunity for millions of people or an enormous sham, an Enron of the sales world, a predatory money trap, an American version of the "Nigerian scam." The truth about MLM income claims affects the fate and fortune of more than five million new recruits in North America every year and countless millions more in other countries.

This report reveals that 99% of all sales representatives each year in the sample of companies analyzed earned on average less than \$14 a week in commission income. The figure represents a *significant financial loss* for virtually all that join these schemes. As extreme as the loss rate is, this figure is conservatively understated because it is calculated *before* all business expenses, inventory purchases and taxes are factored, which would increase total losses and the percentage of those losing.

Additionally, the report shows that on average *no net income is earned by MLM distributors from door to door "retail" sales.*

Because the schemes analyzed in the report are representative of the MLM business model, compensation plans, recruitment tactics and marketing practices of nearly all MLMs, and because the losses are directly attributable to the model and the practices, the data must be seen as typical and representative of a far larger pattern of consumer fraud, literally an "industry of fraud." (See: <http://www.pyramidschemealert.org/PSAMain/news/MLMasConsumerFraud.html>)

These MLM-related losses represent an enormous transfer of money and widespread damage to tens of millions consumers, comparable to losses from predatory lending schemes and "exploding" mortgage contracts. Like any other force that contributes to general impoverishment, the lost investments of savings and time are accompanied by ruined credit, marriage breakups, destroyed friendships and fractured communities. By siphoning billions from the pockets of millions of people directly to few thousand MLM owners and top level recruiters MLM is a contributory force to the increasingly widening income and wealth "divide."

Sophisticated Disguise:

- ▲ *MLMs utilize an elaborate disguise of "direct selling."*
- ▲ *Virtually no multi-level marketing companies sell significant amounts of their products to the public and are therefore not in the "direct selling" business.*

MLMs claim to be in the direct selling business, and their lobbying organization in Washington, DC is called the Direct Selling Association. However, MLM products are sold almost entirely and only to the MLM's *sales forces*, not to the consuming public. Virtually none is resold by the

sale forces on a retail basis; virtually no MLM “salespeople” earn a profit from retailing products; and MLMs do not have sustainable retail customer bases. *There is no retail sales opportunity, only a chance to participate in a pyramid recruitment scheme.*

Moreover, the sales forces are churned (lost money/quit/replaced) at rates between 60-90% each year. Nearly all these churned sales people *stop purchasing the products when they quit the schemes*, indicating that they had made purchases primarily as part of the MLM *income proposition* in which they inevitably “failed.”³ Nearly all MLMs require a quota of product purchases in order to gain the promised income from “downlines.” In classic pyramid scheme analysis these payments are called “pay to play.” Anti-pyramid scheme statutes often term these payments the “consideration” paid in by participants in order to gain “rewards.”

The churning in MLM is entirely distinct from turnover in the legitimate direct selling business or other transitional and part time occupations. In MLM, the funds gained by the schemes come directly from the investments of the recruits (salespeople), not from their customers. In legitimate direct selling, though the participants may turnover at a high rate, the revenue of the enterprises is based on the salespeople selling products to retail customers, not on inducing direct financial investments from the salespeople themselves. Additionally, in legitimate direct selling, the success or failure rates correspond to time and talent applied to retail selling. In MLM, as in all closed systems that are based on *endless chain recruiting*, the loss rates are pre-determined and inevitable regardless of time and talent applied.

The promise of profit from retail sales by MLM sales representatives to consumers is the basis for the industry's claim that it is a form of "direct selling." Additionally, the retail sales potential is held up as a defense against pyramid scheme charges since the payments to the upline are based on the *product* purchases of new recruits, not chiefly on entry or membership fees.

A statistical review of twenty-one (21) MLM companies representing 5 million sales people and "projected" retail sales of \$10 billion reveals that – even if retail sales are assumed to be occurring – *the average MLM sales person is not earning a net profit from retail sales.* The test or profit potential can be applied to any MLM when the total sales revenue, total number of sales people and the average gross profit on retail sales are disclosed. The number of salespeople is divided into the total revenue to determine average inventory purchases. Then retail margin is added to that figure to determine the maximum possible profit available to the salespeople on average. This calculation shows that retail profit, on average, is non-existent.

The lack of broad-based and profitable retail selling is the single most telling sign that MLM companies are merely pyramid recruitment scams, not direct selling businesses. *They have no “customers” and they have no profitable retail salespeople.* A business in which almost none of its sales representatives earns a profit and almost none has a sustainable retail customer base cannot be called "direct selling.”

MLMs employ numerous devices to obscure the damning fact that most are *non-retailing* operations, merely disguised as "direct selling" companies:

- ▲ Some MLM companies calculate total *purchases* of sales representatives and then *project* an average "retail profit" without verifying if any products are actually retailed or not, what price they were resold for or whom they were sold to.
- ▲ The MLMs often claim retail “profit” by publicizing a mythical gross revenue. Not only are the retail sales unverified but the projected revenue is presented as a “profit” without reporting the costs of selling.

³ The massive losses among MLM recruits are explained away by MLM’s lobbying organization with the claim that the great majority of MLM participants *don’t want to earn money.* They only are interested in buying the MLM goods at a “discount”, the Direct Selling Association claims. The explanation does not address the *impossibility* of broad-based profitability – regardless of time commitment, intention, motivation or levels of talent – in an “endless chain” recruitment model. The claim of “discount buyers” also does not account for the extraordinary churn rate among MLM participants, the majority of whom quit the schemes *within a year* and *stop buying the MLM goods forever.* (See: <http://www.pyramidschemealert.org/PSAMain/news/DSAAAmazingArguments.html>)

- ▲ While retailing to consumers is publicized and claimed, the companies' pay plans are based entirely upon *wholesaling* only to the distributor/recruits. Whether any retail sales ever occur or not, the upline recruiters are paid rebates only on the *downline's wholesale purchases*, never on retail pricing charged to the end-user.
- ▲ Some companies claim they "require" retailing by their distributors, but no systematic method is used to audit retailing activity. That a company would have to "require" selling by its salespeople reveals the inherent flaw in the MLM model and its corrupting decline into pyramid recruitment.
- ▲ Some MLM companies actually advertise their total sales volume based on unfounded retail projections, even reporting these mythical numbers to the Securities and Exchange Commission and promoting them to shareholders.

Continuous Collapse

- ▲ ***MLMs are not sustainable and do not continuously "grow" as a legitimate business. Rather, like all pyramids, they expand and then collapse causing financial loss to the latest recruits.***

It is well understood that classic pyramid schemes expand level-by-level and rapidly increase the number of participants, but then *collapse totally and suddenly* when a point in time is reached where it cannot draw in enough new recruits. The "endless chain" is a math trick. There are, in fact, a finite number of potential participants. When that finite limit is reached, the scheme falls apart.

MLM pyramids are subject to the same inevitable collapse but because MLMs are *highly managed* and disguised as "businesses" the collapse outcome unfolds differently. In MLM, the scheme is in a state of *continuous collapse*, causing losses to the vast majority of all participants (salespeople) each year who lose money and quit the scheme. But in the disguise of a business, the losses are attributed to "failures", akin to market losses in real business and caused by normal business factors.

Unregulated and currently not prosecuted by the US government, the schemes are allowed to continue recruiting new "failures" to replace the 60-90% who quit within one year. In all, 99% suffer losses each year. The record of losses and churning is not revealed to the new recruits. Instead, the scheme continues to be promoted as a viable "income opportunity."

The *continuous replacement* of those that lose money and quit with new recruits enables the scheme itself to continue much longer before further expansion becomes unfeasible in any given region. In the MLM pyramid, the number of participants that constitute "saturation" includes not only those in the scheme at the time of saturation, but also the many who previously were involved and had long since abandoned the scam. And collapse may not occur all at once but may take a longer time until it founders and disintegrates. The MLM type of pyramid – disguised as a business – is allowed by some governments to continue recruiting, even as it inflicts massive harm. These scams can continue to recruit salespeople and sell them inventory in regions where market saturation *for retail sales* and for recruitment, sufficient to sustain many at the bottom, has long since been reached

The untenable business model – with virtually no retail sales and a sales force unable to earn sustainable profit – functions by employing what equates to a fraudulent accounting method. The losses are borne directly and solely by the sales people, not the investors. The lost investments of the salespeople are transferred as "commissions" to recruiters and "profit" to the investors. *Value* is not exchanged. One group profits. The other is harmed. By transferring investment losses from the latest salespeople to earlier ones and continuously funding the business with successive losses from the "last ones in", MLMs operate as classic Ponzi schemes.

In virtually all cases, MLMs require monthly or annual purchase quotas by the sales people in order to qualify for the promised "commissions and rebates" gained from new recruits. The

required purchases gained by making false promises of future income account for virtually all of MLM "sales," not consumer demand or legitimate marketing.

When the disguises of "direct selling" and "product sales" are removed, the underlying pyramid scam is revealed in the design and operation of these MLM schemes:

- ▲ *Multiple "levels" that only serve to expand the scheme and funnel money from large numbers (each level below is larger than those above) of people at the bottom to a few at the top.* The vast majority of all participants – and the vast amount of revenue for the company – are positioned at the bottom of the chain. Virtually all of these people who churn at 60-90% annually are financially "doomed by design" of the scheme.
- ▲ *Requirements to buy products and pay other fees to join the scheme or to remain "qualified" for promised rewards.*
- ▲ *Commission pay plans that send most of the money to the very top levels.* One of the largest MLMs in the world sends 84% of all commissions to the top 1% of its distributor chain.

What chance would the newest recruits *at the bottom* have to earn a profit?

Recruitment Hooks and Lures of MLM Schemes

MLM companies divert attention from the flawed business model and the disastrous financial outcome suffered by participants by presenting a compelling and very alluring picture to recruits. Virtually all MLM companies in every country make the same *alluring and misleading promises* to recruits:

- ▲ **Opportunity to earn "residual" income**, that is, ongoing commissions on the purchase by others whom you recruit or whom they in turn recruit. *You can be freed from "wage slavery!"*
- ▲ **Continuous income without continuous work.** Most products are consumables that people re-use month after month, year after year. *They sell themselves!*
- ▲ **Extraordinarily high-income.** This claim is based on the theoretical potential of expanded recruitment efforts of others. A typical presentation shows one distributor recruiting just five other people, who each recruit five, and this continues just seven "generations" resulting in 78,000 new sales representatives. Commissions on all of their purchases, the promotions claim, will go to *you*. The salesperson in the example is always shown *at the top even though everyone joins at the bottom.*
- ▲ **Early retirement** provided by a continuous, income stream from the labors of others in your sales organization. *No need to work and save all your life!*
- ▲ **Personal freedom**, financial independence as a self-employed person. *No more bosses!*
- ▲ **Time flexibility and more free time.** *More time to spend with the children, to take vacations, and to do more in life!*
- ▲ **Security provided by self-sufficiency** against the many changeable and unpredictable factors in today's economy, including corporate downsizing, inflation, outsourcing, etc. *You are protected!*
- ▲ **Opportunity to enter the business for a low initial investment of money.** *No risk!*
- ▲ **No need for specialized skills or higher education.** *Anybody can do it!*
- ▲ **No marketing expenses or "cold calls"** to strangers are required because your friends and associates are your first prospects. *Your first recruit is as close as your neighbor next door or your own mother!*

- ▲ *Recruitment requirements to advance up the pyramid levels.*
- ▲ *A closed system with virtually no retail sales to consumers who are not part of the pyramid, i.e., the people buying the products are the sales people themselves!*

Calculated Deception

- ▲ *All claims, promises and testimonials about these MLMs as "income opportunities" are false, misleading and harmful, a form of poison in the marketplace. People lose in these schemes because they were lured into a calculated money trap, not because they personally "failed" or "quit." Any scheme in which less than 1% can make a net profit cannot reasonably be termed a "business opportunity."*

Perhaps the most harmful result of these MLM schemes may not be the financial losses they inflict. Rather, it may be schemes' humiliating and debilitating – and utterly false – messages to the victims that their failure and losses in the schemes are their "own fault." These scams have misled millions of people to believe they caused their own "failure," pushing many into disillusionment and despair about true opportunities in the legitimate marketplace.

In fact, the massive loss rates in MLM would be the same even if every participant had the combined talents and ambitions of Donald Trump and Warren Buffet! The loss rates are pre-determined by the scheme's pyramid (endless chain) design and recruitment-based

operation. The recruiters at the top know all this even as they falsely hype the scheme as the "greatest income opportunity in the world."

Virtually all consumers are *recruited* and *solicited* to join MLMs. Almost no one personally *initiates* a membership in an MLM. They are *propositioned*. The sales pitches, the recruitment tactics, and the "opportunity" meetings that consumers are invited to attend are as carefully orchestrated, devious and misleading as info-mercials. Many consumers make the classic error of signing up at one of these staged and deceptive recruitment meetings. Those that do make some investigation often treat the MLM as viable and legitimate unless they hear about a negative court ruling or law enforcement action, which they often do not find. They blindly join without doing even the most basic due diligence.

Having bitten the false lure, many consumers stay hooked with the MLM promoters' false promises of future income and success. To achieve the promised success participants must continue investing in product purchases and paying additional fees. The end for most comes within one year as the costs rise while hope fades. Sixty (60) to ninety (90) percent of all MLM recruits quit the schemes within a year and stop buying the MLMs' products forever.

To sustain their recruitment scheme in the face of 60-90% dropout rates, MLMs engaged in the second, more insidious, phase of deception – convincing the victims that their financial losses and "failure" in the "business opportunity" are their "own fault."

This is achieved with deceptive testimonials and claims that create a false impression that most participants are succeeding, when in reality 99% lose money. Additionally, failure is portrayed as the result of poor character, laziness, "loser" mentality, or personal negativity. The victims are misled to view their losses with embarrassment and humiliation. Understandably, most ex-MLM participants do not report the losses to the police and they seldom even tell their neighbors. Indeed, many victims continue to attest to the MLMs' viability and attribute their losses to having not committed enough time to the program. Some also continue to tout the products while acknowledging that they no longer purchase them.

Seven Key Factors Manipulated by MLMs to Keep Victims Silent:

1. Personal Shame – Who wants to publicize their own folly? Whistle blowing is not directed just at unscrupulous recruiters at the top but at the gullibility, guilefulness, greed, and lapse of common sense of ALL participants, including the *whistle blowers themselves*.

2. Social Embarrassment – Most people enrolled friends, family and neighbors. Do they now want to shine the light on how they harmed people who trusted them? To go public may require making amends with aggrieved friends or relatives, which many people cannot bring themselves to do. *Let sleeping dogs lie*.

3. Self-incrimination – By requiring that each participant recruit other participants, all pyramid schemes make each victim, to some extent, also a perpetrator as well as a victim. *Blowing the whistle might be legally self-incriminating*.

4. Intimidation – MLMs have been known to vilify, threaten, bully and intimidate whistle blowers or even to legally sue them into bankruptcy.

5. Loyalty – Most people who join the schemes were recruited by friends or relatives, some of whom may still be in the scheme. Or, people they recruited during their short tenure may still be hopeful participants. The whistle bower, therefore, must incriminate close associates, maybe even their own mother!

6. Cutting Losses – The victims of MLM schemes (99% of all participants each year) have already lost time and money. Some may have quit their jobs, taken on more debt, fallen behind on existing debts or neglected their work or families. When they quit, few have the time, energy or resources to wage a battle for truth or restitution. Their immediate and urgent need is to cut their losses and rebuild their personal and financial conditions.

7. Gullibility – New recruits are convinced that the MLM scheme is entirely legal and viable. The only reasons a person might fail, they are told repeatedly, include laziness, lack of ambition, fear of success, poor character, lack of effort, fear, or refusal to follow the marketing plan. In short, the people who fail are just "losers" or "quitters." The leaders are portrayed as model human beings - fearless, enlightened, the real winners in life, people to emulate.

Thus, most people, when they do quit – and most quit in a year or so – do so silently, shamefully and with personal disappointment in themselves. Indeed, many victims insist the company, its products and its people were all just wonderful. The cause of their financial loss was entirely their own.

In this manner, MLMs are able to continue scamming new people because word of the losses does not spread widely. Most consumers bear their losses in silence and shame.

Part Two: Summary of Findings

MLMs	% of Distributors in Top level and % of Total Payout They Received	Average Income of Top Level	% of Top Distributors Earning at least 50% of Total Payout and Actual % of Total Payout They Received	Average Income of Top Distributors Earning at least 50% of Total Payout	Average Income of the Bottom 99% of All Distributors, Annually/ Weekly
Arbonne	.04% (1 in 2,500) of all Distributors Received 30% of Total Payout	\$330,516	0.26% (1 in 390) received 57% of total payout	\$126,675	\$87.36 per yr. \$1.68 per wk.
Cyberwize	.01% (1 in 10,000) of all Distributors Received 10% of Total Payout	\$604,202	0.16% (1 in 625) received 51% of total payout	\$49,014	\$291.72 per yr. \$5.61 per wk.
Free Life	0.05% (1 in 2,000) of all Distributors Received 27% of Total Payout	\$549,662	0.92% (1 in 109) received 76% of total payout.	\$86,303	\$253 per yr. \$4.86 per wk.
Melaleuca	0.3% (1 in 330) of all Distributors Received 35% of Total Payout	\$126,322	0.82% (1 in 120) received 52% of total payout	\$67,574	\$502.32 per yr. \$9.66 per wk.
Nikken	0.01% (1 in 10,000) of all Distributors Received 16% of Total Payout	\$1,024,466	0.75% (1 in 135) received 58% of total payout	\$50,545	\$276.64 per yr. \$5.32 per wk.
Nuskin	0.16% (1 in 625) of all Distributors Received 52% of Total Payout	\$480,403.97	0.16% (1 in 625) received 52% of total payout	\$480,404	\$386.36 per yr. \$7.43 per wk.
Reliv	0.21% (1 in 475) of all Distributors Received 47% of Total Payout	\$158,128.92	0.61% (1 in 165) received 68% of total payout	\$79,081	\$154.44 per yr. \$2.97 per wk.
Herbalife	0.027% (1 in 4,000) of all Distributors Received 34% of Total Payout	\$ 611,094	0.137% (1 in 725) received 57% of total payout	\$218,512	\$85.80 per yr. \$1.65 per wk.
Usana	0.034% (1 in 3,000) of all Distributors Received 12% of Total Payout	\$319,740.28	1.47% (1 in 70) received 60% of total payout	\$32,596	\$323 per yr. \$6.21 per wk.
Your Travel Business (YTB)	0.05% (1 in 2,000) of all Distributors Received over 48% of Total Payout	\$281,216	0.36% (1 in 300) received 70% of total payout	\$56,668	\$87.62 per yr. \$1.68 per wk.
Amway/ Quixtar	0.0007% (1 in 150,000) of all Distributors Received 0.5% of Total Payout	\$982,154.00	0.6% (1 in 200) received 24% of total payout	\$36,321	\$698 per yr. \$13.42 per wk.

Bottom Line: Massive Losses and Money Transfer

A review of the payouts of 10 major multi-level marketing companies and the largest MLM, Amway, reveals that more than 99% of *all* distributors do not earn a profit from company rebates/commissions. Additionally, the millions of dollars that the distributors pay the companies for product, training, fees and marketing materials are transferred in the form of rebates/commissions to a tiny group at the top. Among all the companies studied, the concentration of payments to a handful of organizers is consistent and extreme.

- ▲ In every company – except Amway⁴ – 50% or more of the total company payments went to less than 1% of all distributors.
- ▲ In one company, Free Life, 76% of total company payouts went to 1% (at the top) of all the distributors.
- ▲ In the case of Your Travel Business (YTB), about a third of one-percent (one in three hundred) received 70% of all payments.
(See: <http://www.pyramidschemealert.org/PSAMain/news/YTBScheme.html>)
- ▲ In several companies, less than 1/2 of 1% (1 in 200) of distributors received more than 50% of total company payments.
- ▲ Bottom 99% of 10 companies⁵ received less than \$10 per week (range of averages were from \$1.65 to \$9.66) in average gross income, *before taxes, expenses and product purchases*.
- ▲ In half of the 10 companies, 70% or more of participants *earned no income at all*. For example, 96% of Arbonne's sales representatives never earn any commissions at all. 80% of YTB's "agents" also earned no commission at all. In other cases, the same pattern may exist, however, the companies hide that information by only counting the "active" participants or those "active for an entire year" without disclosing how many others or what percentages were "not active" or were active for less than a year

The main promoters in the top brackets are often presented to new recruits as if they represent the actual potential income of *any* new recruit. In fact, each year, the new recruits – who make up the majority of all the distributors – are a revolving group, quitting and being replaced by new hopefuls. *The annual dropout rates of all MLM companies range from 60% to 80% with some even higher.*⁶ In the case of Nikken, for example, the average tenure of the "Directs" and "Seniors" levels of the hierarchy – who make up 81% of the total sales force – is less than a year overall. This high turnover rate occurs among the lower ranks of the hierarchy – where the vast majority of recruits are always positioned – and they are the people who account for the majority of company product purchases.⁷

⁴ As noted in other places throughout the report, Amway's data shows less money going to the top than other MLMs. However, 99% of all Amway sales representative lose money, the same loss rates as the other MLMs. Additionally, the lack of payment going to the top levels is offset at Amway by the profits they gain from the recruits in sales of "tools." Effectively, Amway allows its top distributors to get money from the recruits in a second sales scheme that operates hand-in-glove with Amway's.

⁵ Amway's bottom 99% received \$12 a week. They receive slightly more than other MLM on average for the reason stated in the previous footnote. The slight difference does not change the fact that the bottom 99% of Amway's distributors suffer financial losses.

⁶ In its 2005 10K filing to the SEC, Herbalife International, which is one of the oldest and best established MLMs in the world, disclosed that 80% of all its distributors quit the company within one year of joining. Each year to sustain itself, Herbalife must recruit replacements for those dropouts. In 2008, for example, Herbalife must recruit nearly 800,000 new distributors to replace 2007's "failures."

⁷ The "dropout" rate in a pyramid recruitment scheme is the normal and inevitable pattern, inherent to the fraud. It has nothing to do with motivation, talent or effort of participants. The schemes offer no sustainable retail income opportunity. The only potential income opportunity is based on endless chain recruiting of other participants. However, if most people did in fact remain in the chain and recruit successfully, the scheme would explode in growth, consume whole markets quickly and cause rapid and total collapse of the entire operation. Effectively, the scheme would soon run out of potential new participants. Instead, what occurs is that most people encounter the impossibility of recruiting a large downline and no longer want to bear the required costs of participating. As they

The money that this revolving-door group invests –and earns no return on – is the source of the high incomes to those few at the top each year. Those top level people remain in their insider positions year after year, benefiting from the investment losses of all those who come and go below them.

Three Key Facts for Understanding MLM Rebate/Commission Payouts

- 1) The disparity in rebate payout in MLMs is not between high pay for executives and low pay for entry level workers, as is found in many corporations. In MLMs it is between extraordinary high pay for a tiny group and *no net profit at all* for all others. The very low incomes of the vast majority turn out to be significant *losses* when business expenses are included.
- 2) *The payments made to the top promoters in recruitment-based MLMs and the profit to the MLM owners come directly from all the other distributors who lost out*, not from "customers" of the company, as in a normal corporation. In MLM, one group's money is *transferred* to another group *inside the organization*. The recruitment-based MLMs have no sustainable external customer base – just a revolving, churning group of hopeful recruits and their friends and family who come and go each year. *It is their money that is being transferred to the top.*
- 3) *True "odds" are far worse than annual averages.* As statistically small as they are, the percentages of those who are to the "top" in the examples offered in this report do not represent the true "odds" for succeeding:

16 out of 10,000 at Nuskin; 1 in 10,000 at Nikken; 30 in 10,000 at Melaleuca; 4 in 10,000 at Arbonne; 21 in 10,000 at Reliv; 5 in 10,000 at Free Life and YTB; 1 in 10,000 at Cyberwize.com; and only 1 out of each 150,000 active participants reaches the top level at Amway. The "Diamond and above" levels, which Amway holds out as a feasible goal for all new recruits to attain, is held annually by less than 1 in 20,000 of all participants.

True "odds" for success in MLM are even worse than the above figures. Each person who joins does not have an equal chance, as they would in a lottery or any other activity based on "odds." The people at the top of a recruitment-based MLM win every year, *based on their position*, not on "odds." When only the *new* recruits each year are counted the real chance of success for an entry level recruit is shown to be *far worse than odds at a Las Vegas gambling table.*

quit, the scheme replaces them with new hopefuls. The replacement of dropouts rather than continued expansion of active participants, enables the scheme to operate in a given market over a longer period of time before further recruiting becomes unfeasible. The scheme is, effectively, in a state of "continuous collapse" but the cost of this collapse is borne only by the latest recruits, not the scheme's owners or top promoters.

Part Three: Data Sources and Calculations

The analysis is based on the *actual* average incomes of a representative sample of 10,000 sales representatives for the following multi-level marketing companies:

Arbonne	Nikken
Cyberwize.com	Nuskin
Herbalife	Reliv
Free Life	Usana
Melaleuca	YTB
	Amway/Quixtar

These eleven (11) multi-level marketing companies are *all* members of the Direct Selling Association (DSA) and are representative examples of multi-level marketing industry. They are representative in product type, pay plan, business structure, and marketing claims of the majority of multi-level marketing companies. The companies were selected based on the data available but also on the representative nature of these companies. The particular years in which the data was published by these MLM varies but in all cases is representative of current operations. *No reason exists for the basic data to change appreciably from year to year. Some data is for previous years, because the MLM has, more recently, either stopped making disclosures or has obscured the data, rendering it incomprehensible.*⁸

All data used in the analyses of rebate/commission income were disclosed and published by the MLM companies themselves. The analysis simply translates this data into a more understandable format. Charts are provided showing the *actual* commission payouts on a per-10,000-sales-representatives basis for ten companies. Data become far clearer when they are organized in a per-10,000-sales-representatives format. By translating this data into a simpler and clear format, the MLM code is broken. The absurdly small payouts to the vast majority at the bottom of the chain and the enormous payouts to the handful of individuals at the top, which are hidden in the MLM formatted data, are starkly revealed.

A special supplement is provided on the rebate data from the oldest and largest of all multi-level marketing companies, Amway/Quixtar, which is also a member of the Direct Selling Association. The analysis for Amway/Quixtar is presented on a per-500,000-distributor basis. It reveals the same pattern of 99+% annual loss rate and a concentration of payments to a tiny number of promoters at the top.

Amway/Quixtar figures must be considered separately because an additional business is run by its top distributors that provides more of their income than payments from the Amway/Quixtar business itself. The operation of this second scheme inside the sales organization of Amway/Quixtar – known as the "tools" business and involving the sales by the kingpin distributors of books, tapes and seminar registrations to new recruits – affects the Amway/Quixtar pay plan and its recruitment tactics.

Operated without the knowledge of new recruits, this "secret" income source has been revealed in lawsuits and websites for many years. In May 2004, the highly respected national news program *NBC Dateline* brought hidden cameras into Amway/Quixtar recruitment meetings and exposed the scheme. As the NBC Dateline report showed, the Amway "kingpins" make most of their money by deceptively recruiting people, not from selling Amway products.

The raw data from Nuskin is from its report entitled "1998 Actual Average Incomes." Nuskin was required by the Federal Trade Commission to make disclosures due to two violations

⁸ In all cases, the disclosures published by the MLM are virtually useless or grossly misleading to consumers. An example of more recent disclosures being modified to be even more misleading is *Nikken*. The data in this report comes from a year 2000 disclosure which revealed the actual percentages of *all* distributors are in each level of the scheme. More recent Nikken "disclosures" separate the distributors into two groups and reveal only the percentages of distributors *within each of the two levels separately*, not the *entire* sales organization. This cleverly hides the fact that the top group constitutes only 6% of the entire organization. 94% are in the bottom. When the two groups were combined, it was possible to extrapolate that the top 6% got 83% of all commissions, while the bottom 94% – which makes most of the purchases and sales – got only 17%. The pyramid pattern of money transfer (the money to the top 6% came directly out of the pockets of the 94% at the bottom) is thus hidden in the newer Nikken reports.

regarding false income claims. Nuskin only calculated the incomes of those who were "active" one month of 1998. *The totals of those who joined but dropped out during the year were excluded.*

Nikken's and Melaleuca's numbers come from reports that each company has provided to distributors in the past. Both also counted only "active" distributors. Melaleuca only calculated the incomes of those who were active during *all 12 months* of 2002. Those who dropped out before a year were excluded. *Melaleuca has reported that more than half of all its distributors drop out within a year.*

Melaleuca's numbers were also obscured by not providing exact numbers on the percentage of sales representatives in each level out of the *total* sales representatives, only their *percentages* within each of two major groups. However, the company has revealed that approximately one in five who stay in for a year move from the bottom group to the higher one. The analysis is based on that general breakdown of the sizes of the two main groups.

Reliv, Arbonne's, Free Life's, Herbalife's, Usana's and YTB's numbers come directly from recent data currently provided on their official websites. Both Herbalife and Usana currently face class action suits brought by distributors who claim the company deceived them regarding income potential. Amway/Quixtar is also facing class and action and group lawsuits on similar charges. Additionally, the government of England recently prosecuted Amway/Quixtar on charges of deception regarding income claims.

Cyberwize.com's data comes from the "Income Disclosure Statement for Cyberwize.com 2003-2004" posted on the Cyberwize.com website. This company, like others, limited data only to those active sales representatives who had made a purchase during the year and did not include "terminated" sales people.

The data source for Amway/Quixtar is *Average Annual Income for IBO's in North America, 2001 Average Annual Earnings in U.S. Dollars*, © 2002 Quixtar Inc., which had been posted on the Quixtar website. (Note: In Amway/Quixtar terms, a distributor (salesperson) is called an "IBO" (independent business owner). "Active" in the Quixtar disclosure means an IBO attempted to make a retail sale, or presented the Independent Business Ownership Plan, or received bonus money, or attended a company or IBO meeting in the year 2000.)

MLM companies sought to make the figures appear more favorable by limiting the calculations only to the sales representatives who stay "active" for a year, or only counting those that are active during one selected month or several months. Using that selective method, as each of the MLM companies did, the average incomes of those at the bottom were *increased*. The proportion of those at the top level was similarly *decreased*. Had *all* distributors been counted, or if all distributors who participated *over a multi-year period* were included, a truer failure rate would be revealed. As bad as the figures are, they would be far worse if all participants were included and a longer time frame applied.

Method of Calculations

- ▲ The use of a sample of 10,000 translates the abstract and difficult to understand data published by the MLMs into a comprehensible and *comparable* format. When the percentages of distributors in each "level" (Diamond, Bronze, Director, etc.) are disclosed by the MLM company, the *actual numbers* of people in each level can be determined by applying them to a 10,000-person sample. For example, Nuskin revealed that 0.66% of all "active" distributors were at the "Lapis" level. In a representative sample of 10,000, this means that 66 people out of every 10,000 would be at that level.
- ▲ With the sample divided into actual numbers for each of the levels, and an average payment per distributor in each level disclosed by MLM company, the total dollars paid to each level, per 10,000, can be calculated. The average payout per distributor in each level is multiplied by the total number, per 10,000, in each level. In the Nuskin example noted above, 66 people are at the Lapis level. Nuskin disclosed that the average Lapis level distributor was paid

\$12,408.99 per year. Therefore the Lapis level, per 10,000 Nuskin distributors, received in total \$818,993.

- ▲ And, with the total payout to each “pin” level determined, the *percentage* of the sum total payout that is paid to each level is calculated by dividing the total of each level into the sum total payout to all levels.
- ▲ Now, the percentage of recruits in each level can be seen in contrast to the percentages of the total payout each level gets. The pattern of a massive income transfer from the bottom to the top (The sources of the commission/rebates to the top are the payments made by those at the bottom) is brought to light. This “top-loaded” commission plan shows that the compensation rewards recruiting, not retailing and that the losses of the new recruits serve as the revenue for the earlier ones. Since the scheme’s churn 60-90% of new recruits annually, the money invested by these newest recruits – who are doomed to fail and quit within a year – serves as the schemes’ *main source of revenue*.

Revenue, not Profits

The income numbers are not "profits." The costs of doing business (buying inventory, car expenses, phone charges, purchase of marketing materials, training seminars, etc.) are not deducted, nor are taxes. Actual net income, *where any exists*, would be lower than the numbers presented.

The fact that average income does not equate to "profit" holds true even for the highest average incomes reported for the few at the top of the MLM sales organizations. In a May, 2004 exposé of the Amway/Quixtar sales program, *NBC Dateline* disclosed that the majority of income to Amway's top distributors did not come from commissions on Amway products. *Rather, their main source of income was from selling books, tapes and seminar registrations to new recruits.* Whistle-blowers told *NBC Dateline* that *the costs of being a top promoter at Amway exceeded the income* and that without the "secret" other income source, these "kingpins" would lose money. The whistle-blowers interviewed on *Dateline* also charged that the sales of books, tapes and seminar registrations are organized as a closed pyramid scheme. The goods are never retailed outside the sales force. Upper levels can earn money from the sales of these items to lower levels, who in turn do the same. These revelations are further documented in the current lawsuit brought against Amway/Quixtar by a group of its “top gun” distributors.

Averages, not Typical

Additionally, the “averages” are *mean averages* (total revenue paid, divided by total number of people who participated in pay plan). The averages, as low as they are, still do not mean that the typical MLM participant gained this much in payments, In fact, the majority of MLM participants *earn nothing at all!* For example, according to company disclosures:

- ▲ 86% of all “active” distributors of Nuskin earned nothing in commissions
- ▲ 88% of Herbalife’s received no commissions at all
- ▲ 96% of Arbonne’s earned zero commission
- ▲ 93% of Reliv’s made nothing
- ▲ 70% of Free Life’s were paid nothing in commissions.
- ▲ 80% of YTB’s were paid nothing in commissions.

Even these figures have been reduced by the MLM’s device of counting only “active” distributors. Given that MLM’s typically churn 60-90% of all recruits, the true number of those who invest time and money and earn not even one penny in commissions is unknown but would significantly exceed the figures gleaned from the MLM “disclosures” and cited above.

Retail Sales Costs and Income Excluded

Retail sales revenues are also not calculated in the analysis of the eight companies. *Part Five* of the report specifically addresses the retail sales sector of the MLM "income opportunity" using a much larger sample of companies and offering a full analysis of why retail income is unfeasible I MLM.

Since no projections of retail profits are included in this report, any costs associated with retail selling such as inventory purchases, marketing, travel, training, free samples, discounts, etc. are also not calculated. If these costs were factored with whatever small amount of retail revenue the sales representatives earned, the losses from retail sales efforts would be much larger than presented.

Part Four: Data on Individual Companies



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MLM Company: Arbonne International

Data Source: "The Company Independent Consultant Compensation Summary" (from Arbonne official Website, <http://www.arbonne.com/company/iccs.html>) June 29, 2005

Level	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/Group	Average Payment per Distributor in each Level	Total Payment per Level/ per 10,000 Distributors	% of Total Payments per Level/Group
National Vice Presidents	4	0.04%	\$330,516.40	\$1,322,065.60	29.77%
Regional Vice Presidents	16	0.16%	\$75,715.20	\$1,211,443.20	27.27%
Area Managers	58	0.58%	\$17,934	\$1,040,172	23.42%
District Managers	214	2.14%	\$3,517.60	\$752,766.40	16.95%
Consultants	138	1.38	\$829.60	\$114,484.80	2.58%
Total per Group	430	4.3%		\$4,440,932.00	100%
Consultants who did not receive any company rebates	9,570	95.7%	\$0	\$0	0%
Total	10,000	100%		\$4,440,932.00	100%

For each 10,000 Arbonne distributors:

- ▲ The top 1% (0.78) received 80% of total company payments. Just 78 out of the 10,000 individuals.
- ▲ The mean average payment to the bottom 99% (99.22%) of Arbonne distributors was \$1.68 per week. (before expenses and taxes are deducted - resulting in a significant loss.)
- ▲ The bottom 96% received no company payments at all.

Arbonne's "The Company Independent Consultant Compensation Summary" states: "Independent Consultants can buy Arbonne products from the Company at wholesale prices for resale to Clients or for personal use... Most Consultants personally use the products in addition to retailing them. As a result of these different scenarios, Arbonne does not provide an estimate of average or actual Consultant income from retail sales in this compensation summary."



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MLM Company: Cyberwize.com

Data Source: Income Disclosure Statement for Cyberwize.com 2003-2004 on the Cyberwize.com website (August, 2004)

Level	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/Group	Average Payment per Distributor in each Level	Total Payment per Level/ per 10,000 Distributors	% of Total Payments per Level/Group
Diamond	1	.01%	\$604,202	\$604,202	10.17%
Platinum	3	.03%	\$263,811	\$791,433	13.32%
Gold	9	.09%	\$72,296	\$650,664	10.95%
Silver	15	.15%	\$35,017	\$525,255	8.84%
Bronze	34	.34%	\$13,744	\$467,296	7.86%
Senior Director	73	.73%	\$5,808	\$423,984	7.14%
Director	300	3%	\$2,095	\$628,500	10.58%
Total per Group	435	4%		\$4,091,334	69%
Associate	428	4.28%	\$752	\$321,856	5.42%
Qualified IBO	108	1.08%	\$350	\$37,800	.636%
Active IBO	6,117	61.17%	\$208	\$1,272,336	21.42%
IBO	2,911	29.11%	\$83	\$214,613	3.61%
Total per Group	9,564	96%	\$193	\$1,846,605	31%
Totals	10,000	100%	\$594	\$5,937,939	100.00%

For each 10,000 Cyberwize distributors:

- ▲ The top 1% (1.35) of the pyramid received 48% of the entire payout went to just 135 individuals out of each 10,000 "active" sales representatives.
- ▲ The mean average income of the bottom 99% of the active Cyberwize sales representatives was \$5.61 per week (before expenses and taxes are deducted - resulting in a significant loss).
- ▲ Cyberwize.com's disclosure document states that 67% of all active sales representatives made no commissions; that is, out of each 10,000, 6,700 made no rebate income.
- ▲ The bottom two levels of the pyramid, out of a total of 11 levels, constitute 90% of all the sales representatives.
- ▲ Out of each 10,000 sales people, the top 4 individuals earned as much in total as the bottom 9,000 combined.



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MLM Company: Free Life International

Data Source: Free Life's 2004 Annual Income Statistics
 (<http://freelife.com/info/makemoney/incomestats/2004incomestats.pdf>)

Levels	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/ Group	Average Payment per Distributor in each Level	Total Payment per Level/Group per 10,000 Distributors.	% of Total Payments per Level/ Group
Royal Ambassador	5	0.05%	\$549,662	\$2,803,276.20	27%
Ambassador	87	0.87%	\$59,245.21	\$5,136,560.71	49%
Director V	15	0.15%	\$13,666.98	\$209,105.79	2%
Director IV	31	0.31%	\$12,756.02	\$390,334.21	4%
Director III	61	0.61%	\$7,255.92	\$444,062.30	4%
Director II	92	0.92%	\$3,633.45	\$333,551.71	3%
Director I	219	2.19%	\$2,380.96	\$522,145.53	5%
Total per Group	510	5.10%		\$9,839,036.45	94% (rounded)
Director	174	1.74%	\$1,044.37	\$182,033.69	1.74%
Executive IV	149	1.49%	\$711.89	\$106,356.37	1%
Executive II.	1,071	10.71%	\$234	\$250,543.80	2.4%
Executive	1,096	10.96%	\$62.19	\$68,135.36	.65%
No income	7,000	70.00%	\$0.00	\$0.00	0%
Total Per Group	9,490	94.90%		\$607,069.22	6% (rounded)
Totals	10,000	100%	\$1,045	\$10,446,105.67	100%

For each 10,000 Free Life distributors:

- ▲ Less than 1% (0.92%) of the total at the top of pyramid received over 75% of the total company payout. Each one in the top 0.92% earned on average \$1,700 per week.
- ▲ The remaining one-fourth (25%) of the commissions is divided among the 9,908 others.
- ▲ The Free Life income disclosure states that 70% of all Free Life distributors earned *no commissions at all*.
- ▲ The mean average payment to of the bottom 99.08% of Free Life Distributors who remained active for one full year was \$4.86 per week (before expenses and taxes are deducted - resulting in a *significant loss*).



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MLM Company: Herbalife

Data Source: Herbalife Statement of Average Gross Compensation of U.S. Supervisors in 2006, http://www.shopherbalife.com/US/en/pdf/AverageGrossCompensation_EN.pdf (February, 2008)⁹

Levels	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/ Group	Average Payment per Distributor in each Level	Total Payment per Level/Group per 10,000 Distributors.	% of Total Payments per Level/ Group
Presidents Team	3	0.027%	\$ 611,094	\$ 1,833,282	34%
Millionaire Team	11	0.11%	\$ 111,444	\$ 1,225,884	23%
GET	62	.62%	\$ 24,455	\$ 1,516,210	28%
World Team	68	.68%	\$ 4,219	\$ 286,892	5%
Supervisor	1029	10.3%	\$ 549	\$ 564,921	10%
Supervisors No earnings	1528	15.3%	-0-	-0-	N/A
Non-Supervisors No Earnings	7,300	73%	-0-	-0-	N/A
Total	10,000 rounded	100% rounded	\$1,934	\$5,427,189	100% rounded

- ▲ For each 10,000 Herbalife Sales Representatives, only 1,172 will earn some commission while 8,828 earn no commissions (did not purchase enough during the year – after making initial investments – to qualify for commissions).
- ▲ Less than 1% (0.76%) of the total group, that is 76 at the top of the chain out of each 10,000, get 85% of all Commissions paid out by Herbalife to the sample.
- ▲ The bottom 88% of the chain will get no commissions at all.
- ▲ The bottom 99% (99.24%) of all Herbalife sales representatives earned a mean average income of \$1.65 p. wk.

⁹ To receive commissions at Herbalife, a recruit must gain the position of Supervisor, which effectively requires an annual investment of approximately \$3,000. Only 27% of sales representatives reaches that level. In its 2005 10K report to the SEC, Herbalife reported that 60% of those that reach Supervisor level quit the scheme within one year and 90% of those below that level quit within a year. This equates to an overall annual churn rate of at least 80%!



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MLM Company: Melaleuca

Data Source: Melaleuca's 2002 Annual Income Statistics, Melaleuca Marketing Executives

Levels	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/Group	Average Payment per Distributor in each Level	Total Payment per Level/Group per 10,000 Distributors.	% of Total Payments per Level/Group
Exec. Director	30	.3%	\$126,322	\$3,789,660	35.23%
Sr. Director	52	.52%	\$33,681	\$1,751,412	16.28%
Director V	16	.16%	\$14,816	\$237,056	2.20%
Director IV	38	.38%	\$10,718	\$407,284	3.78%
Director III	94	.94%	\$6,872	\$645,968	6.00%
Director II	268	2.68%	\$3,567	\$955,956	8.88%
Director	1,502	15.02%	\$1,219	\$1,830,938	17.02%
Total per Group	2,000	20.0%	\$4,809	\$9,618,274	89.4%
Exec. III	1,064	10.64%	\$393	\$418,152	3.88%
Exec. II	1,536	15.36%	\$166	\$254,976	2.37%
Mktg. Exec.	5,400	54%	\$86	\$464,400	4.31%
Total Per Group	8,000	80.0%	\$142	\$1,137,528	10.6%
Totals	10,000	100%	\$1,075	\$10,755,802	100%

For each 10,000 Melaleuca distributors:

- ▲ Less than 1% (.82) of the total received over one-half of the total company payout (52%). 82 people out of 10,000. The other half of the payout was divided among 9,918 others.
- ▲ Just 30 individuals received 35% of the total, each one receiving over \$2,400 per week.
- ▲ The mean average payment to of the bottom 99% of Melaleuca Distributors who remained active for one full year was \$9.66 per week (before expenses and taxes are deducted - resulting in a *significant loss*).



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MLM Company: Nikken

Data Source: Nikken USA's Average Wellness Consultant Income Sheet Annual Income Statistics 2000

Levels	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/Group	Average Payment per Distributor in each Level	Total Payment per Level/Group per 10,000 Distributors	% of Total Payments per Level/Group
Royal Diamond	1	0.01%	\$1,024,466	\$1,024,466	16%
Diamond	4	0.04%	\$265,145	\$1,060,580	16%
Platinum	20	0.20%	\$47,313	\$946,260	14%
Gold	50	0.50%	\$15,192	\$759,600	12%
Silver	555	5.55%	\$2,904	\$1,611,720	25%
Total Per Group	630	6%		\$5,402,626	83%
Bronze	293	2.93%	\$969	\$283,917	4%
Executive	950	9.50%	\$390	\$370,500	6%
Senior	2,729	27.29%	\$73	\$199,217	3%
Direct	5,398	53.98%	\$52	\$280,696	4%
Total Per Group	9,370	94%	\$121	\$1,134,330	17%
Totals	10,000	100%	\$654	\$6,536,956	100%

For each 10,000 Nikken distributors:

- ▲ Just 25 out of the 10,000 individuals received 46% of total company payments.
- ▲ Less than 1% of the 10,000 (75 people) received 58% of all company payments.
- ▲ The bottom 94% received only 17% of the payments.
- ▲ The mean average payments to the bottom 99% of Nikken distributors was \$5.32 per week (before expenses and taxes are deducted - resulting in a *significant loss*).



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MLM Company: Nuskin

Data Source: " Nuskin's "1998 Actual Average Incomes" Report

Level	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/Group	Average Payment per Distributor in each Level	Total Payment per Level/ per 10,000 Distributors	% of Total Payments per Level/Group
Blue Diamond	16	.16%	\$480,403.97	\$7,686,464	52.46%
Diamond	9	.09%	\$154,581.68	\$1,391,235	9.49%
Emerald	8	.08%	\$53,422.40	\$427,379	2.91%
Ruby	19	.19%	\$27,070.91	\$514,347	3.51%
Lapis	66	.66%	\$12,408.99	\$818,993	5.59%
Gold	111	1.11%	\$6,611.44	\$783,870	5.35%
Total per Group	229	2.29%	\$50,752.35	\$11,622,288	79.31%
Executive	266	2.66%	\$4,622.03	\$1,229,460	8.39%
Qualifying Executive	46	.46%	\$2,988.98	\$137,493	0.94%
Distributor	880	8.8%	\$1,888.20	\$1,661,616	11.36%
Distributors who did not receive commissions	8,578	85.78%		\$0.00	0
Total per Group	9,770	97.7%	\$310	\$3,028,569	20.69%
Totals	10,000	100%	\$1,465	\$14,650,857	100.00%

For each 10,000 Nuskin distributors:

- ▲ Just 16 out of the 10,000 individuals received 52% of total company payments.
- ▲ The top 1% of the 10,000 received 74% of all company payments.
- ▲ The bottom 86% received no company payments at all.
- ▲ The mean average payment to the bottom 99% of Nuskin distributors was \$7.43 per week. (before expenses and taxes are deducted - resulting in a significant loss.).



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MLM Company: Reliv

**Source: "2003 EARNINGS STATISTICS" (from Reliv official Website,
<http://www.reliv.com/docs/2003EarningsDisclosure.pdf>)**

Level	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/Group	Average Payment per Distributor in each Level	Total Payment per Level/ per 10,000 Distributors	% of Total Payments per Level/Group
Presidential Director	21	.21%	\$158,128.92	\$3,320,707	47%
Master Director	40	.40%	\$37,581.48	\$1,503,259	21%
Senior Director	43	.43%	\$18,189.72	\$782,158	11%
Key Director	138	1.38%	\$6,748.56	\$931,301	13%
Director	458	4.58%	\$1,307.88	\$599,009	8%
Total per Group	700	7%		\$7,136,434.00	100%
Retail Distributor, Affiliate, Key Affiliate, Senior Affiliate, Qualified Master Affiliate and Master Affiliate	9,300	93%	\$0	\$0	0%
Total	10,000	100%		\$7,136,434.00	100%

For each 10,000 Reliv distributors:

- ▲ The top 1% (1.04) received 79% of total company payments. Just 21 out of the 10,000 individuals
- ▲ The mean average payment to the bottom 99% of Reliv distributors was \$2.97 per week. (before expenses and taxes are deducted - resulting in a significant loss.)
- ▲ The bottom 93% received no company payments at all.

Reliv's "2003 EARNINGS STATISTICS" does "not include profits earned through retail sales of product to customers or wholesale profits from sales of product to downline Distributors purchasing at lower discounts... but, according to Reliv, "it is fair to state that retail and wholesale profits from customers and downline Distributors constitute a major form of income for Reliv distributors." Reliv says it "has no current ability to estimate those types of income."



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MLM Company: Usana

Data Source: Usana Webpage: "USave Income" 2005 (Dec., 2006)

<http://www.usana.com/media/File/Policies%20and%20Procedures%20page/US/US%20AveIncome.pdf>

Levels	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/ Group	Average Payment per Distributor in each Level	Total Payment per Level/Group per 10,000 Distributors.	% of Total Payments per Level/ Group
DDIR	3	0.034%	\$319,740.28	\$959,220.84	12.02%
EDIR	4	0.036%	\$187,714.59	\$750,858.36	9.41%
RDIR	6	0.064%	\$103,638.37	\$621,830.22	7.80%
GDIR	22	0.22%	\$50,816.94	\$1,117,972.68	14.01%
Total per Group	35	0.35%		\$3,449,882.10	43% (rounded)
SDIR	112	1.12%	\$11,980.09	\$1,341,770.08	16.82%
BDIR	39	0.39%	\$7,755.61	\$302,468.79	3.79%
DIR	119	1.19%	\$5,230.27	\$622,402.13	7.80%
ACHVR	240	2.40%	\$2,901.24	\$696,297.60	8.73%
BLDR	712	7.12%	\$1,271.88	\$905,578.56	11.40%
BLVR	1,672	16.72%	\$328.02	\$548,449.44	6.88%
SHR	1,115	11.15%	\$99.05	\$110,440.75	1.38%
All Others	5,956	59.56%	0	0	0%
Total Per Group	9,965	99.65%		\$4,527,407.35	57% (rounded)
Totals	10,000	100%	\$797.73	\$7,977,289.45	100%

For each 10,000 Usana distributors:

- ▲ 35 people out of 10,000 received over 40% of the total company payout.
- ▲ The top 1% of all distributors (1.47) received 60% of the entire payout.
- ▲ The top 3% of the total received over 70% of the total company payout.
- ▲ The mean average payment to the bottom 99% was \$6.21 a week, *before product purchases, taxes and all other business expenses*
- ▲ At any point in time and at all times, 5,956 Usana recruits out of each 10,000, will not earn even one penny in commissions.

Note: Usana reports that the mean average annual earnings of its "full time" and "part time" Associates is \$802.62. This figure is based on a total commission payout in 2005 of \$81,354,121.15 to a reported 101,361 total Associates. The "per 10,000" Associates analysis shows a mean average \$797.73. The slight difference is attributable to rounding of decimal points in the percentages in the sample.



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MLM Company: Your Travel Biz

**Data Source: YTB Income Disclosure Statement,
http://www.ytb.com/downloads/YTB_IncomeDisclosure_2-8-08.pdf (April, 2008)**

Levels	No. in each Level per 10,000 Distributors	% of all Distributors in each Level/ Group	Average Payment per Distributor in each Level	Total Payment per Level/Group per 10,000 Distributors.	% of Total Payments per Level/ Group
(Levels 1-7) Directors ¹⁰	5	.05%	\$281,216	\$1,406,080	48.26%
Coach's Corner	31	.31%	\$ 20,450	\$ 633,950	21.76%
Power Team Leader	400	4.00%	\$ 1,850	\$ 740,000	25.40%
Active Rep	1,473	14.73%	\$ 90.32	\$ 133,041	4.56%
Rep	8,091	80.91%	0	0	0
Total	10,000 (rounded)	100% (rounded)	\$219.31	\$2,913,071.00	100% (rounded)

For each 10,000 YTB distributors:

- ▲ 0.36% of the total number of reps (1 in 300) got over 70% of the total commission
- ▲ The top 4% (4.036) of the Reps received 95% (95.42) of all Commissions
- ▲ The bottom 81% of the chain got no commissions at all.
- ▲ The bottom 96% (95.64) receive a mean average commission of \$13.91 per year or \$0.27 cents per week.
- ▲ The bottom 99% (99.64) receive a mean average commission of \$87.62 per year or \$1.68 per week.
- ▲ The mean average commission payment to all YTB reps is \$291 per year or \$5.60 per week.¹¹

¹⁰ The concentration of payments to the top levels in YTB is so extreme that the chart had to consolidate the top 7 levels of "directors" to avoid calculating *fractions* of individuals. Even with this consolidation when the model is reduced to per-10,000, the top 7 positions have only 5 individuals. They received over 48% of all payments.

¹¹ YTB's 2007 10K filing to the SEC reported that the company paid out a total \$13,426,540 in "Travel Commissions" to a total of 303,100 sales reps. This means that only 14% of all payments were tied to the sales or purchases of travel services by the sales representatives. In contrast, the company paid \$80,550,029 in "marketing commission." *Translation: payments tied to recruiting other "agents"*, that is, those payments came directly from the fees paid by the new recruits to join the scheme. ($\$80,550,029 + \$13,426,540 = \$93,976,569 \div \$13,426,540 = 14\%$)

Part Five: Exposing the Myth of MLM Retail Income

The previous charts show that virtually no MLM recruits earn a profit from rebates or commissions gained from the purchases made by other recruits. Enormous amounts of money are paid out by the scheme, but they accrue overwhelmingly to a tiny number at the top of the pyramid organization.

Can the recruits earn a profit *retailing* the products on the open market to consumers? The figures from more than 20 representative MLM companies reveal that retail-based income is also a myth. Before taxes and expenses and assuming that every sales person would sell his/her entire inventory at full retail price without ever discounting, the maximum average retail income would be only \$12 a week. After expenses and factoring the realities of discounts, free samples and personal usage, the average income approaches zero or a significant net loss.¹²

The Legal Significance of Retailing

Even though the Federal Trade Commission uses the percentage of retail-based income as a defining characteristic in prosecuting MLM pyramid schemes, MLM companies are not required to disclose to new recruits or to the government the percentages of their products that are ultimately retailed. When the FTC has prosecuted MLM pyramids, it has had to show that the company is not adequately retailing. This requires time-consuming research and games of hide-and-seek with the MLM company regarding data on retailing.¹³

In its prosecution of Equinox International, rather than go through an enormously expensive effort to ascertain retail sales levels, the FTC used a simple mathematical deduction to determine the level of retailing that would establish legality. That level turned out to be 70%.

Once that 70% level was determined it relied on other factors, most of which are listed later in this report, and anecdotal evidence from distributors to base its claim that the required 70% level was not being achieved nor any level even close to it.

¹² The data used is one of the few sources that compiles a significant list of MLMs, their total sales, and the gross profit margin offered to the participants. Though the referenced figures are not current, the data is corroborated by examining the same factors in the MLMs analyzed in this report and nearly all others. Two major examples show the pattern.

- ▲ Herbalife reported in 2007 that it received about \$2 billion in revenue from the inventory purchases of 1.7 million distributors. This equates to average weekly inventory purchases of just \$23 by the distributors. A 30% retail margin would yield an average gross profit of just \$9 a week. This *gross* profit – before all business expenses are deducted – would be possible only if all the distributors sold *all* their inventory, without giving any away, offering any discount, and *using any themselves* – a sales impossibility. Similar figures result from making the same calculations for other MLMs in this report.
- ▲ Usana reported to the SEC that at the end of 2006 that annual average purchases of Usana inventory by its USA distributors was just \$40 per week. Usana offers the distributors a 25% retail profits based on suggest retail price. On this average purchase level, the most that the distributors could earn at 25% gross profit is, therefore, just \$13 a week. This is the average available *only* if they are able to sell everything they buy, use no products themselves, give away no samples and never offer one penny in discount! And this maximum average of \$13 a week is *before* all other business expenses are deducted.

¹³ The non-retailing factor is a key element in causing the consumer losses, since recruitment-based profits can only be achieved by a rare few participants that are positioned at the top of the sales pyramids. Yet, the MLM industry is seeking to escape prosecutions that are based on the factor of the retail sales level. A 2003 bill, written by the Direct Selling Association, was introduced in Congress to fully legitimize "non-retailing" multi-level marketing companies. The bill, HR 1220, was a bold effort to overturn past court rulings, overrule state statutes against pyramid selling schemes and reverse decades of pyramid scheme regulatory policies. The effect of this bill would be to allow and legalize business practices that are currently treated as *fraud*. It is promoted by the Direct Selling Association (DSA), which has defended pyramid sales schemes that were prosecuted by state and federal government. Several of its former members, such Trek Alliance and Equinox Int'l, were in recent years shut down by the FTC as pyramid schemes for the very practices this bill seeks to legalize.

The 70% Retail Benchmark

The retail sales level formula used by the FTC to prosecute Equinox and other MLMs involves adding the company's total production costs, marketing expenses, general overhead and retail profit (based on the maximum gross profit without discounting). The FTC model allowed that only half the rebates paid to the sales representatives had to be tied to retail sales, so only the value of half its rebates were added to this sum. With this total representing all costs that the law would require to be covered by retail sales, the FTC could project that 70% of all Equinox sales to its sales representatives would have to be retailed for the company to meet its legitimacy test. The FTC asserted that it believed no more than 20% of Equinox's purchases by its sales force were ever retailed.

Because most MLMs pay a large percentage of their total wholesale revenues to the upline organizers in rebates – usually about 40% of the grossly inflated wholesale price paid by the distributors is transferred as “commissions” to the upline – most of the schemes will correspondingly require 70% retail sales level requirements when the test is applied to them. Using its year 2007 annual report data, Herbalife International, one of the largest and best established MLMs, was shown to need 70% retail levels to establish legitimacy when the FTC formula was applied. Actual retail sales of Herbalife products are minimal.

There are many precedents, other than the FTC's test, for setting 70% as a minimum required retail sales level for MLMs to prevent MLMs from operating as pyramid recruitment scams.

- ▲ Amway pleaded to the FTC in 1979 that it required its distributors to resell at least 70% of the products they have purchased each month. Amway told the court, its "70% rule" had been in existence since the beginning of Amway and that it enforces the rule. The “70% rule” supposedly prevented Amway from loading up distributors solely on their own personal purchases. In recent years, Amway now claims that sales at a wholesale level from one distributor to another are the same as retail sales and meet the requirement. The FTC does not currently accept this claim from any MLM.
- ▲ Additionally, this 70% standard has been applied in four cases in North Carolina prosecuted by the NC Attorney General's Office. The four companies include Club Atlanta Travel, Destiny Telecomm International, Inc., Tele-Card International, and International Heritage, Inc. These four companies had enrolled 40,000 distributors in North Carolina alone. Destiny Telecomm International, as one case in point, was a California company that marketed discount phone cards. Upon joining the Destiny Program, each participant purchased at least one Destiny phone card after which they were told they could earn commissions upon the recruitment of other participants. In the court settlement, Destiny agreed that "at least 70% of all North Carolina sales shall be retail sales to persons who are not connected in any way to the Destiny sales force." The agreement also excluded from the 70% portion sales to individuals who subsequently became Destiny representatives.

Retailing Realities

- ▲ The actual retail sales levels of the vast majority of MLMs is exemplified by Amway/Quixtar, the oldest and largest of all multi-level marketing companies. Amway was compelled by government order to provide its retail sales data. It disclosed that *less than 20%* of its products are purchased by anyone other than its own sales representatives.¹⁴

¹⁴ Under order from the FTC, Amway produced in 1991 the often referenced SA (Sales Aid) 4400 which includes the "Certificate of Distributor Achievements." This document reports sales figures for all "active" distributors for the year from April 1989 through March 1990. According to Amway, "these figures were gathered by a leading national survey research firm according to established standards of scientific and statistical validity and were based upon a nationwide random sample of 'active distributors.'" Note that Amway counted as "sales" those made from one distributor to another distributor and all purchases made by distributors that were never resold to anyone else. These "sales" were counted as "sales to yourself" or "buying from your own store."

According to this survey of all active distributors, the Average Total Sales was \$513 and the Average Retail Sales – were \$95 ($\$95 \div \$513 = 18.5\%$)

- ▲ Melaleuca and most other MLM companies stress the practice of "becoming your own customer," that is, buying the company's products and then recruiting other sales representatives who will purchase in a similar manner *for their own use*. Virtually all MLM companies require a minimum monthly purchase level by their distributors. None of the four companies in the study pays rebates based on retail sales, only on the purchases of downline distributors.
- ▲ Most recently, and in obvious response to the actions of regulators that focus on retail sales levels, some MLMs will require the sales representatives to have a minimum number of retail customers. This does not mean that sales representative earn a true retail profit or have a sustainable customer base, only that they have a few retail customers that function as fig leaves. *For example, in the case of Pre-Paid Legal, one of the largest MLMs, the average number of retail customers per sales representative is just 4 customers, an insufficient customer base for the sales representative to earn a profit.*

Retail Data from 21 MLMs¹⁵

Company	No. of Sales People	Av. % Gross Profit	Total "Projected" Retail Sales	Total "Potential" Retail Profits	Av. Annual Retail Profit	Av. Wkly Retail Profit
American Image Marking	75,000	50%	\$90,000,000	\$45,000,000		
Advantage Marketing Systems	37,000	37%	\$13,492,063.49	\$4,992,063		
Amway	2,000,000	32%	\$5,882,352,941	\$1,882,352,941		
Celltech	34,000	35%	\$38,461,538	\$13,461,538		
Diamite	43,000	40%	\$83,333,333	\$33,333,333		
Discovery Toys	25,000	55%	\$166,666,667	\$91,666,667		
Enrich International	75,000	30%	\$107,142,857	\$32,142,857		
Herbalife	250,000.00	25%	\$102,000,000	\$25,500,000		
Japan Life America Corp.	4,500	18%	\$8,536,585	\$1,536,585		
Matol Botanical	172,000	32%	\$375,000,000	\$120,000,000		
Melaleuca	150,000	37%	\$333,333,333	\$123,333,333		
Nanci Corporation	50,000	27%	\$82,191,781	\$22,191,780		
Neways	35,000	50%	\$90,000,000	\$45,000,000		
Nikken	1,035,000	20%	\$1,250,000,000	\$250,000,000		
Noevir	40,000	30%	\$42,857,143	\$12,857,143		
NSA	50,000	22%	\$466,666,667	\$102,666,667		
Nutrition for Life	30,000	30%	\$21,428,571	\$6,428,571		
Oxyfresh	13,000	29%	\$18,309,859	\$5,309,859		
Reliv	48,000	32%	\$73,529,412	\$23,529,412		
Shaklee	1,000,000	23%	\$596,103,896	\$137,103,896		
Watkins	50,000	45%	\$181,818,182	\$81,818,181		
Totals	5,216,500	(av.)33% Gross Prof.	\$10,023,224,830	\$3,307,664,194	\$634.08	\$12.19

¹⁵ Raw Data Source: *Multi-Level Marketing, the Definitive Guide to America's Top MLM Companies*, Second Edition. Compiled by Will Marks, 1994, Arlington, Texas, The Summit Publishing Group.

Summary of Retail Income Findings

- ▲ Findings are based on a 1994 sample of 21 multi-level marketing companies, large and small.
- ▲ The sample constituted 5.2 million sales people and over \$10 billion in "projected" retail sales.
- ▲ The average potential retail sales gross profit for all companies was 33%.
- ▲ Maximum Average Gross Profit for all these sales people was \$12.19 per week, before expenses and taxes.
- ▲ This \$12 a week would be possible only if all sales people sold *all* their inventory on a retail basis, purchased none of the goods for themselves, never gave away any samples and were able to sell all the goods at full retail margin without discounting at all.
- ▲ *When actual costs are factored, including inventory, samples, sales costs, and discounting, and true volume of retailing are calculated, the average net profit would be near zero or a significant net loss.*

How to Calculate the Maximum Average Retail Profitability in any MLM

- ▲ Get the MLM company's total revenue gained from sales of inventory to the distributors.
- ▲ Calculate the maximum retail sales profit (difference between wholesale and suggested retail price) that the entire sales force could earn on those total inventory purchases
- ▲ Divide the maximum retail profit possible if all products are retailed at full retail price by the total number of distributors.

The Myth of Door-to-Door Selling

The MLM sales model is said to be composed of thousands of "door to door" resellers. This claim contradicts the everyday experience of most people. The door-to-door salesperson is nowhere to be found in the modern American neighborhood. Few people are at home during the day or have time in the evening to entertain sales representatives. Security concerns do not support door-to-door sales. The internet, mass distribution, big-box discount stores, mail order catalogues and telemarketing all have contributed to the demise of the door-to-door salesperson.

Beyond these broad indicators, a confluence of ten factors within the MLM business model and inherent in its practices weighs against MLM sales representatives being able to retail their products or services "door to door." The factors negating retailing are matched to others that encourage *recruiting*. They include:

1. Inadequate Gross Profit and High Price of Products Restrict Retailing

Nikken, for example, offers a maximum of only 20% gross profit on suggested retail prices of its entire product line. Considering the costs involved and the nature of the products, this small gross profit is an inadequate incentive to support necessary investments by distributors in retail marketing.

Out of this potential maximum of 20% gross profit, a distributor must finance the tasks of prospecting, making sales presentations, ongoing business investments, providing customer support and marketing literature, providing free samples, carrying some inventory, at least for demonstrations, and making some deliveries of the product (unless the product is purchased from Nikken directly). He/she may have to collect payment and take back returned goods as required.¹⁶ Other costs that must be covered by this small gross profit include business licensing, accounting (Nikken itself charges accounting fees ranging from \$24 to \$360 a year depending on rank)¹⁷, travel, phone, computer and other technology fees, etc.

¹⁶ "Customer Appreciation Program (CAP)/Nikken Shopping Network (NSN)...allows retail customers to order directly from the Internet, with the sales credit assigned to their distributor. *The distributor is responsible for handling any product returns.* (Nikken Distributor Reference Guide Update, Policies/Procedures, ©1999, p. 2)

¹⁷ Nikken Distributor Guide Update, Policies and Procedures 10/99, p. 17.

A retail margin of *at least 50%* (100% or more mark-up over wholesale cost) is needed to cover product and operating costs and allow for a reasonable profit. Companies such as Avon offer retail margins of this amount.

Beyond an inadequate gross margin, the retail-selling price must be competitive to comparable products. A perusal of MLM goods reveals many to be far more expensive than comparable goods sold in stores.

2. Limited Choice to Consumer Reduces Retailing Opportunity

Choice is restricted in the direct "person-to-person" method of selling and more people prefer to purchase goods of this type in stores where there is wider choice and no pressure upon personal relationship.

3. Marketing Policies Restrict Retailing

Most MLMs place severe restrictions on the marketing activities, which raise retail sales costs and limit the exposure of the sales people. These restrictions include strict prohibitions against displays in retail stores and mass advertising. Additionally, the MLM company itself does not engage in national advertising to support the brand or educate the customer about the product or the company. This burden and cost are carried entirely by the individual sales representative.

4. No Retail Sales Training Offered

The typical MLM company offers little training or support for retail selling. The focus and priority are placed on training, motivating and rewarding the recruitment of more and more sales people.

5. Nature of Products Makes Retailing Difficult

Some MLM products are controversial in nature. For many years, MLMs marketed weight loss products containing the now-banned supplement ephedrine. Referring to Nikken's products that use "therapeutic magnets," a perusal of the Internet turns up disputes about the value and efficacy of magnet technology, including scientific challenges and lawsuits. These controversies and challenges result in increased sales effort and time and the need for greater product knowledge and training. In other cases, the MLM products are undifferentiated "me-too" products in the "pills, potions and lotions" categories that characterize large sectors of the MLM business.

6. Competitive Product Availability Prohibits Retailing

Many MLM products are available at lower cost from other sales outlets, including retail stores and the Internet. Nikken-branded products, for example, are also available from current and ex-distributors at discounted prices.

7. Proliferation of Distributors Dilutes Retail Sales Opportunity

A characteristic of nearly all MLM sales and marketing is that they advise sales representatives to solicit their closest friends and relatives to also become distributors. This is equivalent to a McDonalds' franchise owner seeking to set up competitive stores on the same street. The proliferation of additional distributors within the same social or geographical market must inevitably lead to retail discounting, a scenario that would severely damage retail sales efforts.

A strategy of encouraging each distributor to authorize more local competitors would only make business sense if overrides from the new competitor's *investments* were paid to the recruiter by the franchisor and outweighed the loss of retail business that the additional competitors would cause. This is precisely what the MLM compensation programs do.

8. Greater Long Term Benefits from Recruitment than Retailing

A sale by a MLM distributor to a retail customer is a one-time event with no assurance of any future purchases of that company's products and no assurance that the end-user will purchase more of the MLM goods from that distributor. A newly recruited distributor, on the other hand, is effectively locked into the sponsorship structure, and all future purchases of that new recruit will accrue benefits to the distributor who did the initial recruiting. Additionally, the new recruit,

as opposed to the end-user, is often exposed to the MLM company's promotions and materials to enter an automatic monthly ordering program, recruit more distributors, buy additional inventory, etc., which the individual end-user is not.

9. Top-Loaded Pay Plan Rewards Recruiting

Most MLMs use a clever pay plan that pays more money – per sale – to the "upline" than to the people actually doing the work of selling the product or recruiting new sales people. So, in addition to the structure limiting the number of winners to a tiny few, the pay plan also insures that whatever money the "losers" invest goes immediately to those at the top. This is necessary since most of the recruits will quit in less than a year after experiencing significant financial losses.

10. Advancement Tied to Recruiting

Whatever opportunity exists in the scheme for profitability is based on being positioned high on the chain. Recruiting is the only way to advance to the higher levels where the leveraged high incomes can be gained.

Part Six: Amway/Quixtar Data and Analysis

The Myth of Income Opportunity in Multi-Level Marketing presents detailed analysis of 10 representative and typical MLM companies in which it was shown that *more than 99% of all participants never earn any net profit from rebates, commissions or bonuses*. Additionally, the data on 21 MLMs showed that, *on average, MLM participants do not earn retail sales profit*. The real chance for a new recruit to make a profit is absurdly small, too small to be termed an "income opportunity."

This supplement offers data and analysis of the Amway Company – now called Quixtar in North America – that reveals exactly the same results: *at least 99% of all distributors do not earn any profit at all*.

Amway/Quixtar is the oldest, largest and most prominent of all multi-level marketing companies, with revenue of approximately \$6 billion. Amway and Quixtar are the same business with only superficial changes. The parent corporation of Amway and Quixtar is the same, Alticor. The top executives and managers of both operations are the same. The "kingpin" distributors are all the same. The product lines are the same, and the pay plan is essentially the same.

The Secret Business

Amway figures must be considered separately because a secret business is run by its top distributors that provides the majority of their income. This secret business has been disclosed in lawsuits and websites for many years. In May 2004, the highly respected national news program *NBC Dateline* brought hidden cameras into Amway/Quixtar recruitment meetings and exposed the scam. As the report showed, the Amway "kingpins" make most of their money by deceptively recruiting people, not from selling Amway products. At recruitment meetings the kingpins claim that they have become wealthy in the Amway business and that new recruits can also gain this wealth by joining the company as distributors (called IBOs). In fact, these kingpins are gaining huge profits from selling books, tapes and seminars to new recruits, which they tell them are needed in order to achieve "success." In reality, many at the top levels are in a *net loss position* (after expenses) from their Amway business. They are profiting only from money gained from recruiting program itself.

This data reveals that the average incomes of the top levels of Amway/Quixtar are indeed smaller than other MLMs and the payout is less concentrated at the top.

Amway/Quixtar pays *the least* to its top recruiters, but their incomes are supplemented by a secret and deceptive second business run by the recruiters – in collaboration with the Amway corporation – in which they make millions selling "success tools" to the recruits. Amway's promoters stage huge rallies for recruits where many of these bogus "tools" are sold through a secret internal pyramid structure.

No data exist on the incomes gained from the secret "tools" business run by Amway/Quixtar kingpins, but the existence of this business – backed by the data showing that 99% of all distributors lose money – indicates a massive and global campaign of deception.

Lawsuits, Exposés, Consumer Protests, Tax Evasion, Defiance of Government Orders, Intense Political Influence-Peddling

Additional reasons why Amway/Quixtar deserves separate analysis regarding its claims about income opportunity include:

- ▲ Amway/Quixtar is the most controversial of all MLMs. Numerous private lawsuits, class action lawsuits and many consumer protest and exposé websites all charge deception about the income opportunity and the operation of a harmful pyramid scheme.
- ▲ A recent lawsuit brought against Amway by a group of its top level distributors claimed the Amway is an illegal pyramid, that its products are too highly priced to be retailed and that less than 4% of its products are ever purchased by retail customers. All others are purchased only by the distributors, who are on the pyramid chain.
- ▲ Amway was sued by one of the largest companies in America, Procter and Gamble, that accused Amway of operating an illegal pyramid scheme and deceiving recruits about income opportunity.
- ▲ In 2007, the government of England prosecuted Amway for deception and consumer harm and sought to have the company closed down.
- ▲ Amway/Quixtar has been the subject of an exposé news program on the most credible American news shows, *NBC Dateline* and *CBS 60 Minutes*, in which the company was accused of massive deception about actual income levels of recruits.
- ▲ Amway has a history of deception and illegal behavior:
 - In 1983, the Canadian government charged Amway and founders DeVos and VanAndel with tax evasion. Amway eventually pleaded guilty and paid a fine of \$25 million – the largest ever imposed in Canada.
 - In the US in 1979, Amway was ordered by the Federal Trade Commission to halt its practices of price fixing and making exaggerated income claims.
 - Amway was subsequently found by the FTC to be violating the 1979-government order to stop making false income claims and was forced to make disclosures about actual income averages.

MLM Company	% of total payout gained by those in approx. top 1%
Arbonne	0.26% (1 in 390) received 57% of payout
Cyberwize	0.16% (1 in 625) received 51% of payout
Free Life	0.92% (1 in 109) received 76% of payout.
Herbalife	0.76% (1 in 130) received 85% of payout
Melaleuca	0.82% (1 in 120) received 52% of payout
Nikken (top .75%)	0.75% (1 in 135) received 58% of payout
Nuskin (top 1.18%)	1.08% (1 in 99) received 74% of payout
Reliv (top 1.04%)	0.61% (1 in 165) received 68% of payout
Usana	1.47% (1 in 70) received 60% of payout
Your Travel Business	0.36% (1 in 300) received 70% of payout
Amway	0.6% (1 in 165) received 24% of payout

- Amway was charged by the state of Wisconsin for making false income claims. An investigation by the Wisconsin Attorney General revealed that the upper levels of Amway distributors were, on average, showing a significant *net loss* on their tax returns.
- Amway has engaged in large-scale political lobbying¹⁸ that could influence federal regulation of false income claims.

¹⁸ Examples of Amway's extensive influence-buying:

- ▲ The "soft money" donation of \$2.5 million from the Amway Corporation to the Republican Party in 1994..
- ▲ Amway's and affiliated donors' soft money contributions to the Republican National Committee totaling \$4,147,000 between January 1, 1991 and June 30, 1999, according to the consumer watchdog group Common Cause,
- ▲ Amway's 1996 donation of \$1.3 million to San Diego's host committee "to defer convention costs" for the Republican Party's national convention.
- ▲ The 1997 gift of \$1 million to the Republican Party, one of the largest single donations on record from an individual, by Amway founder, Richard DeVos, a former finance chairman of the Republican National Committee.
- ▲ The campaign status with the Bush/Cheney campaign of Betsy DeVos, daughter-in-law of the Amway co-founder Richard DeVos, as a "Pioneer" after raising \$100,000 for the Bush/Cheney campaign.
- ▲ Contributions of \$2 million each from Amway founders Richard DeVos and Jay Van Andel in 2004 to the Republican "527" *Progress for America*.
- ▲ The use of the Amway yacht in Philadelphia and New York at the 2000 and 2004 Republican Conventions to host parties for lobbyists and insiders.
- ▲ The use of the DeVos family yacht in 1999 by the "Republican Majority Issues Committee" (RMIC), for its inaugural fundraising event. RMIC is a "527" organization founded by Rep. Tom DeLay (R-Texas).

Amway's Data



Pyramid Scheme Alert Data Analysis
Robert L. FitzPatrick, Pres. © 2008

Amway/Quixtar Payouts
per 500,000 Distributors

Source: "Average Annual Income for IBO's in North America, 2001 Average Annual Earnings in U.S. Dollars." © 2002 Quixtar Inc.¹⁹

Levels	No. in Each Level per 500,000	% of "Active" Distributors	% of ALL Distributors	Average Payment per Distributor	Total Payment Per Level, per 500,000	% of Total Payments per Level
Founders Exec. / Above	2	0.0007%	0.0005%	\$982,154.00	\$1,964,308	0.5%
Exec. Diamond / Above	14	0.0042%	0.0028%	\$450,729.00	\$6,310,206	1.4%
Founders Diamond	6	0.0018%	0.0012%	\$227,400.00	\$1,364,400	0.3%
Diamond	25	0.0076%	0.0050%	\$149,942.00	\$3,748,550	0.8%
Founders Emerald	61	0.0186%	0.0123%	\$89,646.00	\$5,468,406	1.2%
Emerald	151	0.0458%	0.0302%	\$69,122.00	\$10,437,422	2.3%
Q-12 Award	435	0.1317%	0.0869%	\$39,763.00	\$17,296,905	3.8%
Founders Platinum	892	0.2704%	0.1785%	\$30,193.00	\$26,932,156	5.9%
Platinum	1,400	0.4242%	0.2800%	\$24,952.00	\$34,932,800	7.7%
Total Pins	2,986	0.9048%	0.5974%	\$36,321	\$108,455,153.00	23.8% ²⁰
Non-Pin / Earn Bonuses	327,014	99.0950%	65.4%	\$1,060.94	\$346,944,847	76.2%
Total Actives	330,000	100%	66%	\$1,380.00	\$455,400,000.00	100.0%
Distributors / No Bonuses	170,000	N/A	34%	\$0.00	\$0.00	0.0%
Total Distributors	500,000	100%	100%	\$910	\$455,400,000.00	100.0%

In a sample of 500,000 Quixtar Sales Representatives:

- ▲ 170,000 (34% of all recruits) earned no commissions at all.
- ▲ The bottom 99.4% of the all distributors earned on average just \$13.42 per week -- before product purchases and all business expenses. This average income is far less than the costs of running the business. *This means that more than 99% make no profit.*
- ▲ In real numbers, approximately 497,000 out of 500,000 are in losing positions at the bottom of the chain. Despite the massive losses among the salespeople, Amway advertises itself as the "greatest business in the world!"
- ▲ Upper levels that represent less than .6% of total participants (approx. 1 out of every 200) receive 24% of the total bonus payout.
- ▲ Amway recruits are exhorted to "Go Diamond!" New recruits are led to believe this is feasible for many to achieve the Diamond status. In fact, each year only 1 person in 20,000 is at that level!! (0.005%)

¹⁹ According to Amway's disclosure, "Active" means an IBO attempted to make a retail sale, or presented the Independent Business Ownership Plan, or received bonus money, or attended a company or IBO meeting in the year 2000. Quixtar offered data only on "active" participants, but disclosed that 66% of all IBOs are classified as active. By definition, the "non-active" signed up and paid entry fees but received no commissions. In Amway/Quixtar terms, a distributor (salesperson) is called an "IBO" (independent business owner).

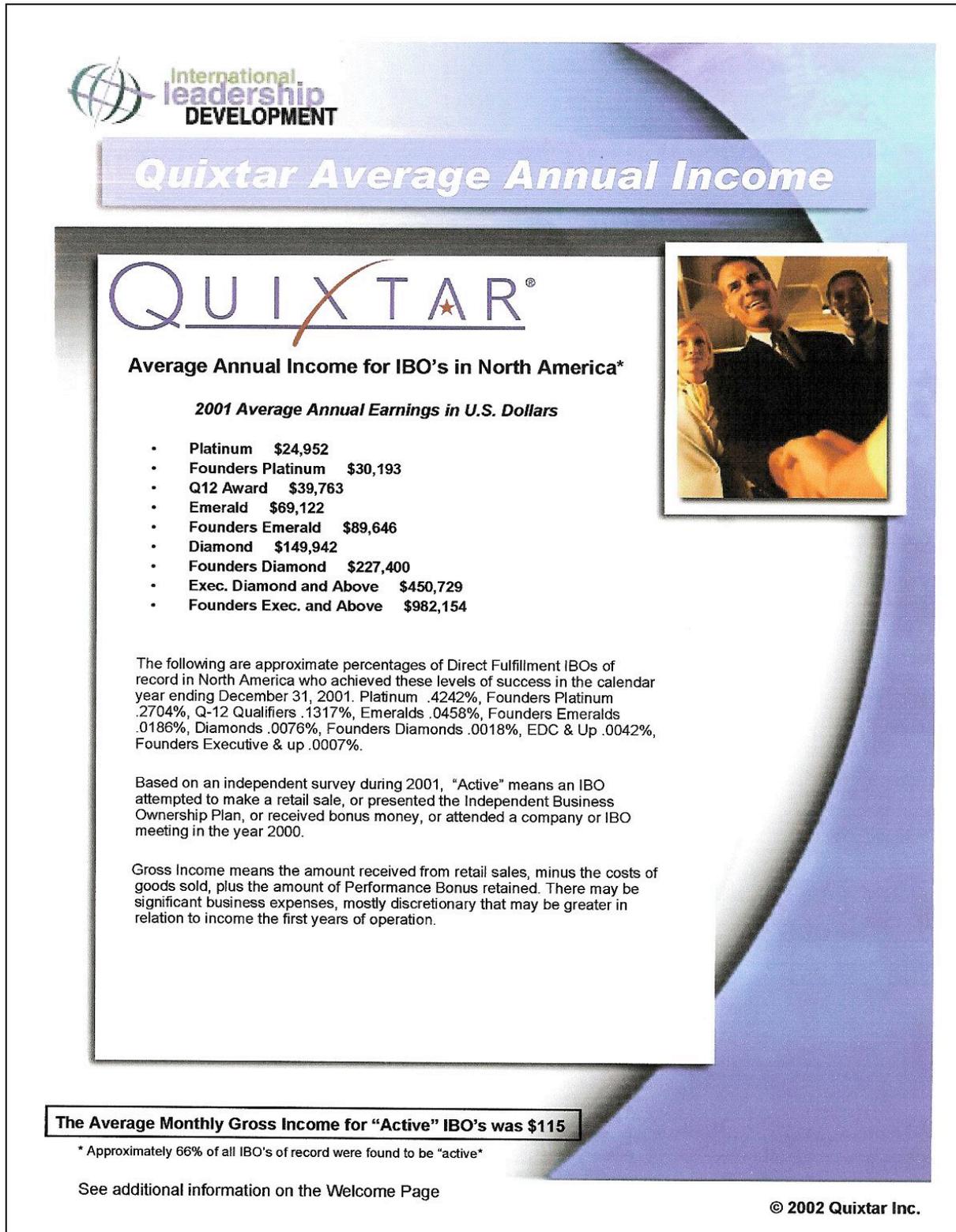
²⁰ Other MLMs concentrate more at the top than Amway's distribution of 24% of total commission payments to the top 0.6% (less than 1 in 200). Amway disburses a larger amount of commission payment to a lower level of the chain (non-pin level) that constitutes 65% of the entire sales organization. It receives 76% of the total commissions. The mean average payment to those in this group is \$18.50 a week (before expenses and purchases). The disbursement represents a net loss against costs to the average consumer in this group, but does serve as an effective "lure." The difference in income to Amway's top level distributors is more than offset by their additional income gained from sales of Amway-related "tools" to new recruits at the bottom. These "tools" include books, tapes and seminars. Consumer losses among those at the lower levels are compounded by these additional purchases (investments) and in some cases far exceed the expenses for Amway products. News media reports and class action lawsuits have affirmed that the income to the top distributors from that additional source -- undisclosed to the recruits -- exceeds their income from Amway commissions.

How the Quixtar Data Is Analyzed:

- ▲ A per-500,000-distributors base of analysis was needed because the number of people at the top is so small relative to the number of those below. A smaller sample could be used in other MLM studies, but with Quixtar a smaller sample would result in the use of *fractions* of individuals. Out of 500,000 distributors, for example, only *two people* are in the highest level.
- ▲ The use of the sample of 500,000 allows the data to be translated to figures that are more concrete and understandable.
- ▲ The percentages of distributors in each "pin level" (Platinum, Diamond, etc.) can be translated to actual numbers of people by applying them to a 500,000-person sample. For example, Quixtar revealed that 0.0007% of all "active" distributors are in the "Founders Exec. and Above" level. In a sample of 500,000, this means that just 2 people would be at that level.
- ▲ With the sample divided into actual numbers for each of the pin levels, and an average payment per distributor in each level disclosed by Quixtar, the total dollars paid to each level, per 500,000, can be calculated. The average payout per distributor in each level is multiplied by the total number in each level.
- ▲ The total payout to the non-pin levels is determined by subtracting the total payout to the pin levels from the total payout to the entire active group.
- ▲ With the total payout to each pin level and all those below the pins determined, the payout to each level as a percentage of the sum total payout is calculated by dividing the total of each level into the sum total payout.
- ▲ The number of "non-actives," i.e., those who received no commission payments, is based on the disclosure that 66% are "active". In a sample of 500,000, then 170,000 (34%) are "inactive".

Amway Data – As Disclosed on the Quixtar Website

Note: Quixtar refers to its distributors as "IBOs"



International leadership DEVELOPMENT

Quixtar Average Annual Income

QUIXTAR®

Average Annual Income for IBO's in North America*

2001 Average Annual Earnings in U.S. Dollars

- Platinum \$24,952
- Founders Platinum \$30,193
- Q12 Award \$39,763
- Emerald \$69,122
- Founders Emerald \$89,646
- Diamond \$149,942
- Founders Diamond \$227,400
- Exec. Diamond and Above \$450,729
- Founders Exec. and Above \$982,154

The following are approximate percentages of Direct Fulfillment IBOs of record in North America who achieved these levels of success in the calendar year ending December 31, 2001. Platinum .4242%, Founders Platinum .2704%, Q-12 Qualifiers .1317%, Emeralds .0458%, Founders Emeralds .0186%, Diamonds .0076%, Founders Diamonds .0018%, EDC & Up .0042%, Founders Executive & up .0007%.

Based on an independent survey during 2001, "Active" means an IBO attempted to make a retail sale, or presented the Independent Business Ownership Plan, or received bonus money, or attended a company or IBO meeting in the year 2000.

Gross Income means the amount received from retail sales, minus the costs of goods sold, plus the amount of Performance Bonus retained. There may be significant business expenses, mostly discretionary that may be greater in relation to income the first years of operation.

The Average Monthly Gross Income for "Active" IBO's was \$115

* Approximately 66% of all IBO's of record were found to be "active"

See additional information on the Welcome Page

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Part Seven: How the MLM Income Myth Is Maintained

Confuse the Consumer

Prior to this report, consumers have had little or no useful data on MLM income claims. Consumers are, however, subjected to barrages of personal "testimonials" and "success stories."

Multi-level marketing employs a seemingly indecipherable language to explain its trademark "compensation plans" and business model that permit unlimited authorization of sales representatives and that pay rebates based on purchases by new recruits who are recruited by the earlier recruits in an endless chain.

- ▲ They refer to the model as *consumer direct marketing, one-to-one marketing, personal franchising, network marketing* and many other colorful but misleading terms.
- ▲ Some MLMs describe their pay plans as unique or much more beneficial than others in the industry. They use specialized terms *as stair-step breakaway, legs, binary and trinary, PV and BV*, yet most of these pay schemes are essentially *identical* and yield the same ruinous financial outcome to the average participant.
- ▲ Circles and diagrams are drawn at recruitment meetings and a complex organizational hierarchy is presented, including as many as 12 levels with names such as *Regent, Platinum, Diamond* and *Blue Diamond*.
- ▲ There are leadership bonuses, breakaway bonuses, production bonuses, multiple commission levels, and numerous types of "rebates."
- ▲ Often a "suggested retail price" is applied to goods that are never retailed.
- ▲ Rebates, which are only discounts on the investor's own purchases, are classified as "income."
- ▲ "Distributor markup" is sometimes used interchangeably with "gross profit" as if they are the same.²¹
- ▲ Qualifications to earn payments or rebates depend on a complex factoring of "personal group" purchase volumes, the rank of the sales representative and the size, configuration and purchase volumes of the "downline."

Seven Tricks of MLM Pyramid Schemes

1. Make them think they are at the top, when they are actually at the **BOTTOM**.
2. Call them "Distributors" but actually they are "Recruiter/Investors."
3. Confuse them with "exponential expansion" (5 recruit 25 who recruit 125 who recruit...) to make it appear feasible for all to build an "endless" chain of recruits *forever*.
4. "Top Load" the pay plan so the last ones in continuously pay the earliest ones at the top and most of the payments go directly to the top.
5. Gradually front load victims by requiring monthly purchases or "sales" quotas to remain qualified for promised payments.
6. Sell the recruits books, tapes and seminars to "motivate" them and help them "succeed."
7. Convince the victims that their failure and financial losses are their "own fault."

²¹ Gross profit is a percentage of profit calculated on the actual retail sales price. An item purchased by the reseller at the wholesale price of \$100 and sold for retail price of \$200 has a 50% gross profit. The "net" profit will be much less than gross profit. It is reduced by all costs involved in sales and marketing and other overhead expenses. "Distributor markup" is the percentage of the suggested retail price based on the wholesale price. It is just a theoretical figure since it is not based on the actual selling price and does not factor any of the sales costs. In the example just cited, the "distributor markup" is 100%. Some MLMs will refer to higher distributor mark up figure as the "profit" and omit sales costs altogether.

Other methods of confusing the consumer include:

- ▲ Information on income put forth by some MLM companies or the MLM industry at large often mixes income data from MLM with statistics from traditional direct selling companies and party plan companies in which retail sales may indeed be the prevailing revenue source.²²
- ▲ Nearly all data that is presented by the MLM industry omit estimates or averages of normal *business costs* such as auto, telephone, travel, training or postage and shipping to operate an MLM business. In this way "gross income" is confused with "net profit."
- ▲ Inventory purchases are also ignored as business costs and are mingled or confused with purchases for "personal use or consumption."
- ▲ Many MLM companies offer "average incomes" that are actually *mean averages* that meld the huge incomes of those at the top with thousands of others that make nothing at all. This leaves the impression that the "average" MLM participant actually earns a "profit", when almost no one does.²³
- ▲ Some use data only on "active" participants and exclude all those that had earned nothing and quit – the majority in some companies – thereby reducing the number of sales people divided into the total payouts and increasing the "average income."
- ▲ A similar misleading device is to count only the "active" distributors in a one-year time frame. This ploy conceals that the top level distributors who profit year after year are the same people whose numbers do not increase, while the new recruits that lose year after year are a revolving group *whose numbers mount each year*. The actual number of "losers" multiplies year by year. The number of "winners" remains the same and does not grow. If a longer time frame were used, a true ratio of gainers to losers would emerge that would shock and discourage any new recruit.
- ▲ Figures are almost never revealed on how many consumers join and quit the program each year, thus concealing the "revolving door" nature of the scheme and the fact that no stable customer base exists.
- ▲ And, for most companies, percentages of rebate payments that are paid to each level are not disclosed nor is the percentage of money earned on offshore sales. When the payout per level is disclosed in a manner that is understandable, the gross concentration of payments to the top organizers is revealed along with the massive losses to all others.

In short, MLM solicitors do not disclose the basic financial information needed to make an intelligent investment decision. Many people, therefore, join on the basis of hope or the personal recommendation of someone else who has also joined on the basis of hope or on the blind faith in the claims made by the company about the "income opportunity."

Claim "Legality"

A key element of maintaining the MLM myth of income opportunity is based on the claim that, regardless how it operates, MLM is always "legal." This is, in fact, false. *Lack of prosecution of any MLM does not mean it is legal*. Indeed, MLM is illegal in some countries and in the United States, legality cannot be presupposed. Millions of Americans have participated in MLMs that claimed they were legal, but were later shut down by regulators.

As a supposedly legal enterprise, "success" in the MLM business, the promoters will claim, is the result of "hard work" and "following the system" recommended by the organizers – as would

²² The Direct Selling Association, the official lobbying organization of the multi-level marketing industry, throws all kinds of direct selling companies – retail-based with strong brand names along with hundreds of little known MLMs – into its overall figures. It offers color charts and graphs, but the figures include so many different types of companies and sales people it is of no practical use to a consumer.

²³ In the case of Nuskin figures, for example, the mean average payment to all the "active" distributors was \$122 a month. However, if the income of the 2% at the top of the pyramid is taken out, the mean average of the 98% who are at the bottom of the chain was only \$26 a month (indicating a massive loss rate). A closer analysis reveals that the bottom 86% received no rebate payments at all.

occur in legal businesses. Failure rates and financial losses among those recruited into MLM – regardless of their scale – are then claimed to be an outcome of normal business risks and markets forces or the fault of the individuals who lose. The claim of legality is used to affirm financial legitimacy, to conceal a flawed structure that *requires* the vast majority to lose, and to justify systematic deception.

Until about 25 years ago in the United States, endless chain sales schemes were routinely treated as illegal pyramid schemes or "unfair and deceptive trade practices." Any sales company employing an endless chain to sell or market its products was seen as *fraudulent* due to the certainty of financial losses they perpetrate on the vast majority of participants and the necessary use of deception to lure participants.

This report, however, does not directly address the question of whether the MLM endless chain system is legal or not. Since 2001, the Federal Trade Commission has avoided prosecuting or overseeing the MLM industry to any significant extent, making the question of legality moot in terms of consumer protection. Though many are blatantly operating illegally, *MLMs today operate largely without oversight*. Consumers are generally on their own to know whether they are being defrauded or not.

Whether or not an endless recruitment chain is declared legal and whether or not the FTC prosecutes any particular MLM will not change the disastrous financial results such schemes inflict upon consumers. Endless chains – without the majority of people in the chain earning the majority of their income from retail selling – will *always* produce a massive loss rate for participants.

In the past cases where the FTC has prosecuted MLM companies, it based its prosecutions on the key factor of whether the majority of the sales of the MLM were made to consumers outside the chain, that is, sales made on a retail basis to people who are not also MLM sales representatives and occupy positions on the chain.²⁴ This factor was used to determine whether the MLM is a "direct selling" company or a pyramid recruitment scheme. The reasoning for treating "non-retail" schemes as illegal pyramid recruitment schemes was based on federal court interpretations and rulings that cited the defining factor of retail revenue versus revenue gained primarily from the sales representatives themselves.²⁵

Hide the Pyramid Math

Beyond legal interpretations, the FTC's justification for prosecuting the non-retailing companies also rests on simple math that any consumer can understand. The math referred to by the FTC is

²⁴ "In distinguishing between a pyramid scheme and a legitimate business, the critical issue is whether rewards paid in connection with recruitment are tied to, or are derived from, the sales of goods and services to the general public (i.e. retail sales)"-- *Declaration of Peter J. VanderNat, Ph.D, FTC Economist and Pyramid Expert in FTC vs. Equinox International Corp., 1999*

"Pyramid schemes now come in so many forms that they may be difficult to recognize immediately. However, they all share one overriding characteristic. They promise consumers or investors large profits based primarily on recruiting others to join their program, not based on profits from any real investment or real sale of goods to the public. Some schemes may purport to sell a product, but they often simply use the product to hide their pyramid structure... A lack of retail sales is also a red flag that a pyramid exists. Many pyramid schemes will claim that their product is selling like hot cakes. However, on closer examination, the sales occur only between people inside the pyramid structure or to new recruits joining the structure, not to consumers out in the general public." -- *Prepared Statement of Debra A. Valentine, General Counsel for the U.S. Federal Trade Commission on "Pyramid Schemes" Presented at the International Monetary Fund's Seminar on Current Legal Issues Affecting Central Banks, Washington, D.C., May 13, 1998*

²⁵ One of the largest MLMs that was prosecuted by the FTC is Equinox International, a member of the Direct Selling Association (DSA) with over 100,000 distributors in all 50 states and in Canada. Equinox sold branded, quality, legitimate products. It was ranked #1 in INC Magazine's prestigious list of "500 Fastest Growing Privately Held Companies." The FTC case was based on the fact that less than 20% of all its products were ever resold to actual consumers. More than 80% were sold only to Equinox's own sales representatives. The sales representatives sought to recoup their investments by getting rebates based on the purchases of new sales representatives they recruited.

important to the data and conclusions of this *Pyramid Scheme Alert* report on the MLM "income opportunity." Obscuring this math is another important element of maintaining the myth of MLM income.

Top Level - 1
Level #2. - 5
Level #3. - 25
Level #4. - 125
Level #5. - 625
<u>Level #6. - 3,125</u>
3,906 participants total

The math factor can be illustrated in a simple 6-level chain in which each person recruits just 5 people. At least three levels of recruits ($5 + 25 + 125 = 155$) are needed for each participant to begin to achieve a profit based on override commissions from the purchases of the "downline."

Since only those with three levels below them are profitable, only the Top Level person and the individuals in levels #2 and #3 qualify. Each of the people in next three levels below does not have enough "downline" to generate a profit. (Those in Level #4 each only have 25 in their downlines. Those in Level #5 each have only 5 people, and those in Level #6 at the bottom have none. This means that only 31 out of 3,906, or less than

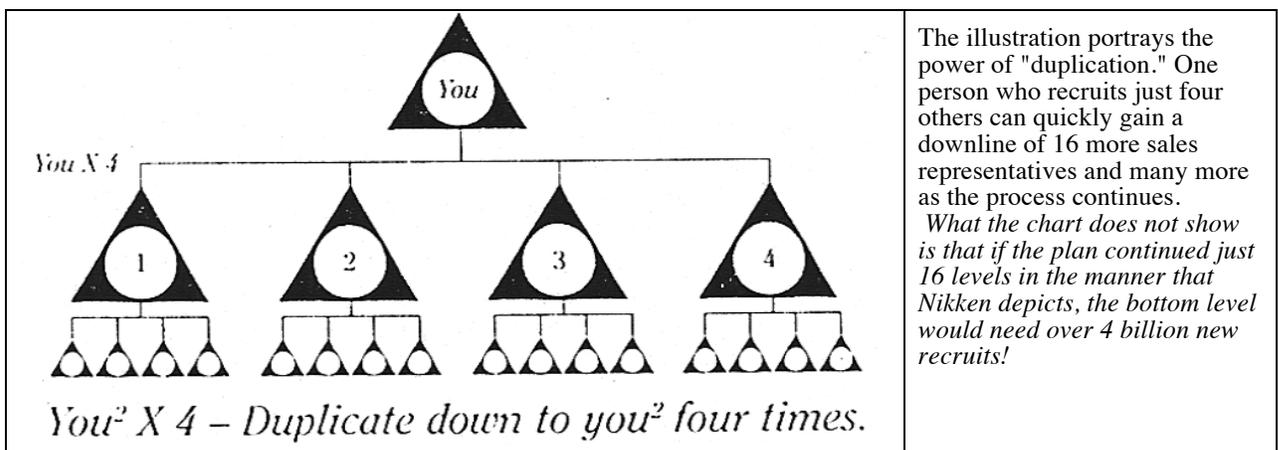
one percentage in the six-level chain, have as many as three levels below them and are profitable. More than 99% are unprofitable based on their position.

This basic formula holds true no matter how much further the chain extends. Approximately 99% are at the bottom of the chain where profit is not possible. For example, if the scheme recruited one more level, Level #7, another 15,625 participants would join. The total would now be 19,531. The number in profitable positions, Top, and the individuals in Levels #2, #3, and #4, would grow to 156, and this number would still equate to less than 1% of 15,625-person organization.

The big numbers, which are cited by the scheme's promoter as providing "extraordinary income potential," are based on overrides from the deepest level of the "downline." Only a tiny few can ever recruit to this level. This is mathematically predetermined from the start by the MLM structure and pay plan. The pay plan itself dooms the vast majority to financial losses, not factors of "hard work" or "following the plan."

The trick of the scheme is to cover up this reality and to convince each and every enrollee that he/she can succeed by building this large and deep downline. Recruits are told that the program is a formula for wealth that "anyone can do." A classic method of playing this trick on the recruits is the use of diagrams to illustrate the "explosive potential" of "exponential" recruiting or "duplication." (See: <http://www.falseprofits.com/Lessons%20from%20the%20Pyramids.html>)

Nikken, one of the companies whose income data is analyzed in this report, uses the following typical chart in its recruitment literature.



Theoretically, the bottom levels could recoup their money by finding new distributors to join under them, but that would continue to work only if the scheme could go on *forever* and there were an *infinite* number of people.

In summary, if the income opportunity depends ultimately on purchases by sales representatives that are recruited "downline" rather than on the retail sales by those sales representatives, the upline-downline structure will always require that the vast majority of sales representative be the bottom of the "downline." *Their losses serve as the ultimate source of profit to a very small number in the "upline."* The sales representatives occupying the lower level positions on the chain cannot earn a profit until they, in turn, recruit a much larger group of new recruits below them. The proportion of a very small number of sales representatives at the top, where income is possible, to the very large number at the bottom, where income is not possible, *will remain the same as long as the business continues.*

Whether such a scheme is deemed legal or not, the losses will occur just the same. Personal testimonies from those at the top, high motivation of participants, inspirational speakers at sales rallies, strict adherence to the "system" advised by the leaders, and extraordinary time and effort of new recruits cannot change the laws of mathematics and the MLM business model, which dictate a massive "failure" rate and a miniscule "success" rate.

Withhold Data

Gross deception is necessarily employed in order to lure large numbers of consumers into programs where they will suffer their pre-determined loss. If the truth were known and understood, few consumers would willingly join.

Other enterprises such as gambling casinos and lotteries also are based on a large number of consumers losing as a means of rewarding a few "winners." These enterprises are strictly regulated and the odds for "success" are fully disclosed. The inevitability of losses is clearly stated and well understood. The expenditure of money is treated as entertainment. No one would seriously characterize gambling or playing the lotteries as viable "income opportunities" or career choices for consumers.

Pyramid Scheme Alert's research reveals that the "odds for success" for consumers investing in many multi-level marketing companies *each year* are actually worse than for some forms of legal gambling. *When all the participants over a multi-year period are included in the calculations – all of whom sought a winning position – the failure rate rises to 99.9% or even worse. To attain a position of high income – which the promoters lure investors with – the "odds" are too low to be graphically illustrated.*

Moreover, unlike lotteries and casinos where success is based on random rolls of the dice or picking of numbers and each participant has an equal chance, success in MLM is based on *positioning and timing*. Only the top positions – usually those who joined early or organized the scheme – can gain a profit, and only a tiny number can ever be at the top. The winners already occupy the *positions* that are *guaranteed* of success each time that a new participant makes an investment. The losers – those who are the latest to join the scheme – *have virtually no chance* to replace those already positioned at the top.

Using the MLM industry's own restrictive method of accounting, analysis of available data reveals that more than 99% of all "active" consumers who invest money and time in multi-level marketing never earn a profit. Some lose hundreds, others thousands of dollars. And still others are drawn into financial ruin gripped by the myth, which the MLM industry has carefully cultivated, that the multi-level marketing business offers the best opportunity for earning a living and becoming wealthy.

The massive consumer losses are the direct result of the MLM industry's concerted efforts to withhold or obscure vital financial and historical income data from the investors who buy into the business as sales representatives. This withholding of data is compounded by large-scale dis-information campaigns in which the business is characterized as a lucrative income opportunity and a sustainable income source for the average participant. Most of the MLM companies hold

huge rallies where attendees are aroused to a frenzy of hope and expectation about the wealth and freedom they are told they will achieve in the business.²⁶

Obscure the Nature of the Business

Multi-level marketing is not the same as direct selling any more than it is franchising. Multi-level marketing is a specialized business model. It differs significantly from traditional direct selling in its unique and characteristic policy of authorizing *every* active sales representative to recruit others and to earn override commissions from the purchases of generations of recruits in a multi-tiered chain. This use of the "endless chain" of recruiting is the main point of controversy. It is the characteristic that invites the financial abuse and deception. The override commissions paid directly by the company to recruiters are the primary source for the promised incomes in MLM, while retail sales profits are the primary source of income in traditional direct selling.²⁷

The MLM management chain is not the same as management structures used by traditional sales companies. Traditional direct selling companies can organize entire countries with four levels of managers overseeing a direct sales force that retails directly to the consuming public or to business end-users. In MLM companies, the number of levels expands "infinitely" as upper levels are awarded bonuses on the purchase volumes of extended generations of 12-level chains that have "broken away" when they reach purchase-volume thresholds. In this way, many MLMs function as "endless" chains.

The multiple levels are each paid some commission on each purchase made by new recruits. Usually between 40-60% of the price paid by the new recruit is redistributed to the recruiters above the latest entry level. In many cases, the total amount of the wholesale price that is paid to the "upline" exceeds the maximum gross profit the new recruit could earn if he/she were to retail the product at full price.

Put on the Camouflage of "Product Sales"

The most common deception employed by MLM is to claim that the MLM is legal and is not a pyramid scheme because it "sells a product." In fact, all pyramid schemes use one disguise or another. Selling a product can be just another type of disguise and does not in any way mean that the scheme is automatically legal or is not a pyramid scheme.

Though the recruitment-based scheme is camouflaged to appear as a "sales" company, the classic elements of the pyramid scheme fraud are all present:

1. Multiple levels of investors that bring in more investors.
2. Payments to gain and maintain a position on the endless chain.
3. Recruitment required to move up the chain where greater rewards are paid.
4. Early investors are paid directly from the newest recruits' investments.
5. Structure that places the vast majority permanently at the bottom where no income is possible;

²⁶ In its May 7, 2004 report *NBC Dateline* brought hidden cameras into a 2003 Amway/Quixtar rally of 10,000 recruits in Greenville, SC where attendees were urged to quit their jobs and become Amway sales representatives. They were led in a thunderous chant, "Freedom! Freedom! Flush that stinking job!"

²⁷ The FTC has never issued a rule that defines or regulates multi-level marketing. Instead, the FTC offers consumers a blanket warning against the most highly promoted and unique characteristic of MLM - the ability to earn money on overrides from the "downline". On its website, the FTC has warned, "Be cautious of plans that claim you will make money through continued growth of your "downline" - the commissions on sales made by new distributors you recruit - rather than through sales of products you make yourself." Currently, the FTC advises consumers to "Avoid any plan that includes commissions for recruiting additional distributors. It may be an illegal pyramid." Note: *All* MLMs increase commissions *based on the levels of recruitment* achieved. In fact, the *only* way to earn the high incomes that are advertised is from *recruiting* more distributors.

6. Each succeeding level in the recruitment-based scheme must be larger than the one above, and the numbers of total participants must grow successively, e.g. five sales representatives recruit 25 who must recruit 125 who recruit 625, etc. until saturation.
7. Virtually no revenue in the system sourced from outside the chain, i.e., little or no retail sales.

Such a scheme can never stop recruiting. It can never stabilize since it has no true customer base. For as long as the scheme operates and expands, the opportunity for recruiting declines, thereby further reducing the opportunity for income. Profit in such a scheme is not true profit but only a transfer of money from the latest recruits to the earlier ones.

Yet, the laundering of money through product purchases can camouflage the entire operation as a "sales company" based on "products" – not fees. The product sales in a recruitment scheme are induced by the false promises of income tied to ongoing inventory purchases. No purchase may be required to join the scheme, but monthly purchases are required to "qualify" for the "unlimited income opportunity."

Appendix:

Important Lawsuits and Prosecutions:

Text of Certified Class Action Lawsuit Against Herbalife Brought by Distributors
(<http://www.pyramidschemealert.org/PSAMain/news/CurrentHerbalifeClassAction.pdf>)

Travel Agents Protest Your Travel Business (YTB) Practices
(<http://www.pyramidschemealert.org/PSAMain/news/YTBScheme.html>)

Government of England's Prosecution of Amway for Fraud
(<http://www.pyramidschemealert.org/PSAMain/news/AmwayOnTrialinEngland.html>)

Class Action Lawsuit brought against Amway by bottom level distributors
(<http://www.pyramidschemealert.org/PSAMain/news/AmwaySuedasPyramidScheme.html>)

Articles:

"The Ten Big Lies of Multi-Level Marketing"
(<http://www.pyramidschemealert.org/PSAMain/resources/tenlies.html>)

How to Recognize a MLM Pyramid Schemes, "Five Red Flags"
(<http://www.mlm-thetruth.com/5RedFlags-summary.htm>)

Audio:

MLM Reality/An Interview with Robert FitzPatrick... December, 4, 2006, interview on public radio, WFAE, Charlotte, NC. -- MP3 Recording
(<http://www.pyramidschemealert.org/PSAMain/resources/MLMReality.html>)

Speech to Government Regulators and Private Investigators by Robert FitzPatrick... In 2006, Robert L. FitzPatrick was a featured speaker at the annual meeting of the Association of Certified Fraud Specialists in San Francisco. The presentation is 50 minutes in length-- MP3 Recording
(<http://www.pyramidschemealert.org/PSAMain/resources/MLMasConsumerFraud.html>)