

Response to:

Finding Legit Work-From-Home Jobs¹ People Often Confuse Illegal Pyramid Scams and Legitimate Multilevel Marketing

By Elisabeth Leamy
ABC NEWS Consumer Correspondent
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Submitted by: Len Clements, MarketWave, Inc.

Ms. Leamy,

As a reader of your column let me first commend you on your usually cogent and well reasoned advice. As a full time consumer advocate serving the direct sales industry for 18 years, one of only six court certified experts in the field of MLM in the U.S.², and a VP of an MLM company, I also greatly appreciate your recognition of "legitimate multilevel marketing companies".

Having said that...

When researching an article about MLM, I would respectfully suggest that you seek out more objective and balanced sources of information than the web sites of anti-MLM zealots³ such as MLMSurvivor.com or pyramidschemealert.org (the former of which simply parrots the latter). Their assertion that "less than 1% of participants make a profit" is an ultra-biased and completely fabricated statistic. Furthermore, pyramidschemealert.org (PSA) most certainly does *not* provide "reams of information about which MLMs are really pyramid schemes". A perusal of this site would clearly reveal that they create no such dichotomy. That is, they believe ALL MLMs are pyramid schemes! This belief is in direct contradiction to decades of legal precedent and regulatory scrutiny of this industry which, at every legal and regulatory level, has determined otherwise.

Rather than direct your readers exclusively to web sites where only negative MLM information can be found, why not also direct them to trade organization sites that represent MLM, such as MLMIA.com (Multilevel Marketing International Assoc.), MLM-DRA.org (Distributor Rights Assoc.) or DSA.org (Direct Selling Association)? Or balanced "MLM Watchdog" sites such as MLMWatchdog.com, or MarketWaveInc.com. Or MLM legal resources such as MLMLaw.com or MLMatty.com?

While I agree that a prospect should "do their homework", several of your recommended criteria are ill-advised and inappropriate. You begin my suggesting that the government's "litmus test" is passed by simply "offering a product for sale". This is not only untrue, but may easily mislead the unwary prospect into a false sense of security about their chosen program. Why a product based scheme may still be a pyramid is not due to how the commissions are distributed as you suggest, but rather due to the *motive* for buying the product⁴. If a significant number of reps are buying products only as a token act to qualify in the pay plan,

¹ <http://abcnews.go.com/Business/SmallBiz/story?id=4298649&page=1>

² <http://www.marketwaveinc.com/aboutlen.htm>

³ <http://www.marketwaveinc.com/articles/zealots01.asp>

⁴ FTC letter to DSA, 1/14/04: http://www.marketwaveinc.com/FTC_Letter.pdf

and have no actual desire for the products otherwise, then even an extensive product line will not protect the scheme from FTC ire.

You further suggest that the lack of an "exclusive territory" may result in a market being "saturated with too much competition". First, this is illogical on its face. Limiting the number of people who may participate in a certain geographic region would only serve to *hasten* market saturation (the point in which no additional prospects can effectively be enrolled – which would be immediately after the territory is opened under your suggestion). Secondly, this concept (an invention of the PSA) was first introduced well before the internet was popularized, yet still exists within anti-MLM propaganda today. It is no longer valid (if it ever was) for no other reason that your "territory" is now the entire United States, and in many MLM programs it includes most developed countries on Earth!

You describe the "inherent disadvantage" that "longtime distributors" can earn more than new recruits, and that in traditional businesses "a veteran and a newcomer" earn the same amount if they sell the same item. They do? A tenured salesperson with 30 years of experience and a large client base earns the same commission rate as a newly employed salesperson right out of high school? The occurrence of "longtime" distributors earning more than newly enrolled ones is absolutely *not* indicative of an illegal pyramid. It's simply what happens when someone in *any* sales profession has been doing it successfully for a "longtime". You meet higher sales benchmarks, you earn a higher commission rate.

You essentially answer your own rhetorical questions regarding saturation and high failure rates when you state "drop-out rates in multilevel marketing are astronomical". Hyperbole aside, you fail to recognize the paradoxical condition you have created. Either distributors do perpetuate the geometric progression to inevitable saturation, or they *stop* perpetuating it in "astronomical" numbers. The fact is, the vast majority of MLM participants don't quit because they fail, they fail because they quit. And typically do so within their first 90 days, and without recruiting a single person. Thus, we have a 70+ year old industry⁵, with over 2,200 U.S. companies⁶ and over 8 million distributors⁷, with the majority of its publicly traded (thus audited) companies still breaking net distributor growth records in the U.S. almost every quarter!⁸

You also described as "discouraging" the idea of inviting your friends and family to consider your products and business opportunity. I did this, and most said No Thanks. Then I dropped it, with no repercussions. It's not about *who* you prospect, it's *how* you prospect them. And, indeed, the bait-and-switch tactic you described is considered taboo in virtually all MLM programs today. It was advocated "years ago", as you described, but even then only by a small but memorable minority (predominantly from one, albeit large, MLM company). Your parents have likely come in contact with numerous MLM distributors over the years, but never noticed the 99.9% of them who didn't obnoxiously, aggressively or deceptively pitch them.

Assuming item #4 under your Homework section is not a restatement of item #1, I must then assume you are implying a new distributor should *expect* to sell products themselves to make "good money". You then state in #5 that if those "above you in the hierarchy" make even "as much" as you do for your work, that's an unhealthy business model, and might even be illegal! So, if I wanted to get into the auto sales business and started my own dealership,

⁵ Wachers introduced the first "multilevel" commission system in 1936.

⁶ Network Marketing Business Journal survey, cir. 2004.

⁷ Most recent DSA data with duplicate distributors factored out.

⁸ See: <http://www.marketwaveinc.com/articles/boom.asp> and page 26 of <http://www.marketwaveinc.com/articles/FDI-Rebuttal-R1.pdf>.

would you expect me to be out on the lot selling cars right along side the commissioned sales people I hire? Or, would you expect me to be up in my office running the dealership I own, and making *more* money from the sale of each car sold from the efforts of those below me in the company hierarchy? Why is this a perfectly acceptable and healthy business model in practically *every* form of sales related venture – except multilevel marketing?

In #6 you suggest a prospect ask existing reps how long it took them to turn a profit, and then in #7 recommend they ask the company for a commission breakdown. Several non-public companies already provide detailed commission breakdowns based on rank, and some include data on the average number of months it takes to reach each commission rank. Usana, for example, clearly informs every new distributor that it will take, on average, 50 months to reach the “Gold Director” rank where a living income can first realistically be expected.⁹ Significant profit can first be expected at about the Director level, which takes an average of 27 months. Usana disclosures also reveal that about 75% of distributors QUIT long before they reach month 12 – so of course they fail to achieve a profit! And suggesting that prospects inquire as to how long those mostly among this group took to achieve a profit is a loaded, misleading and unfair question.

Please consider this: If you were to poll 100 people at random who joined a gym at any time over the past 12 months, with the majority of them having enrolled within the past 90 days, and asked them if they have achieved the physical condition they desired, what percentage will answer Yes? Five percent? Three percent? Perhaps - one percent?

So why aren't you warning people away from illegal gym membership schemes?

Len Clements
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⁹ See page 21 of <http://www.marketwaveinc.com/articles/FDI-Rebuttal-R1.pdf>.