

## 30 Typical MLM Misrepresentations

By Jon M. Taylor, MBA, Ph.D.

Law-enforcement agencies do not require honest disclosure of essential information to MLM prospects. I have examined the compensation plans of more than 250 leading MLMs and found that virtually all hide the near-zero odds of making a profit, and in fact almost certain loss. Here are the typical ways they exaggerate to new recruits.

Misrepresentations	The naked truth
Presented as a great “income opportunity,” with huge incomes reported for many.	Recruiting MLM’s nearly always lead to certain loss for new recruits. A few are at the top of a pyramid of participants are enriched at the expense of a multitude of downline participants, about 99% of whom lose money.
“Everyone can do this” – and earn a good income.	Holding up top earners as examples of what others can do is deceptive. It is unfair to sell tickets when – for nearly everyone – the ship has left the port.
Average earnings statements on official reports make MLM’s appear highly profitable.	Reports of average incomes are full of deceptions – (Example - 20 on one page for Nu Skin’s report of “Actual Average Incomes.” See “Report of Violations” of the FTC Order for Nu Skin to cease misrepresenting earnings of distributors.)
Products can be resold at retail prices for a handsome profit	Products are high priced and sold primarily to recruits to “do the business,” rather than to persons outside the network of participants.
Presented as a legitimate business – “not a pyramid scheme”	Product-based pyramid schemes have been found to be the most extreme of all the types of pyramid schemes, with the highest loss rates (approximately 99 %) – far worse than for no-product schemes, or even than most games of chance in casinos.
Work for only an hour or two a day, and build up a “residual income” that will allow you the “time freedom” to quit your job and spend more time with your family or do whatever you want.	To profit at a recruiting MLM, one must work long hours and be willing to continue to recruit to replace dropouts. One must also be willing to deceive large numbers of recruits into believing it is a legitimate income opportunity. Recruits are only fattening their upline’s commissions. And is there anything immoral about hard work for honest rewards?
“The job market is not secure.” The stock market is even shakier. MLM offers a much more secure and permanent (residual) income.”	MLM is far more risky than either the stock market or the job market. It even makes gambling look like a safe investment by comparison. Residual income for almost all MLM recruits is a myth.
Standard jobs are not rewarded fairly. In MLM, you can set your own standard for earnings.	Fair? Most MLM compensation plans are weighted heavily towards those who got in early or scrambled to get to the top of a pyramid of participants.
“If not legal, the program would have been shut down long ago.” MLM’s have survived legal challenges. The fact that they are still around tells you they are legitimate.	Consumer protection officials are reactive, not proactive. Since victims rarely file complaints, law enforcement seldom acts against even the worst schemes. Victims don’t complain because they blame themselves, and they fear self-incrimination or consequences from or to their upline or downline.
If you fail at this program, it is because you failed to properly “work the system.”	The system itself is inherently flawed – an endless chain recruitment of participants as primary customers. The vast majority will always lose money.
“In any business, one must invest time and money to be successful.” (Committed MLM participants may continue investing thousands, and even tens of thousands of dollars, over many years before running out of money or giving up.)	The more one invests in time, money and effort, the more he/she loses – unless willing to deceive enough people to rise to the top of a pyramid of victims. In legitimate companies, sales persons are not expected to stock up on inventory or subscribe to monthly purchases. But in recruiting MLM’s, incentivized purchases (required to participate in commissions and/or advancement) are often merely disguised or laundered investments in a pyramid scheme.
An MLM company report of “actual income” of distributors may boast that “.16% of active distributors have achieved the level of _____ (the top income level)” etc. This is made to appear to be respectable odds of success. (See the book “How to Lie with Statistics”)	When statistics are presented without deception, the “opportunity” is not so attractive. The “.16%” is 0.16% – or odds of 0.0016, and ALL who signed up should be factored in. But MLMs eliminate dropouts in their statistics – a huge deception. With less than 10% remaining after five years, the number should be reduced by 90%. This leaves odds of <b>0.00016</b> of reaching the top level where the money is made. This looks far worse than <b>“.16%”</b>
MLM is the “wave of the future.” In fact, “Our MLM is experiencing phenomenal world-wide growth,” etc. “So get in on the ground floor of this great growth opportunity.”	MLM’rs have been saying this for twenty years, but MLM still accounts for less than ½ of 1% of consumer purchases – in spite of the fact that the number of MLM companies has numbered in the thousands. MLM’s come and go, as do new recruits, 99% of whom drop out. Long-term MLM growth is a myth.
Saturation never happens. Turnover, as in any business, is a reality that assures an ample supply of available prospects. (NOTE: The issue is not TOTAL saturation as MLM apologists suggest, but MARKET saturation. In a town of 10,000 people, the notion of 10,000 distributors to serve them is absurd.)	With few real customers, MLM products are sold by recruiting a revolving door of new “distributors” who buy products to “do the business.” And since people perceive the opportunity as dwindling with each new “distributor,” market saturation requires promoters to recruit elsewhere. So MLM’s quickly evolve into Ponzi schemes, requiring the opening of new markets and/or new product divisions to repay earlier investors, as has happened with Amway (now Quixtar) and Nu Skin (which became IDN, then Big Planet and Pharmanex). It’s not turnover, but continuous churning of new recruits to replace dropouts.

*Generic Misrepresentations Engaged in by Recruiting MLM's, continued*

The demand for these MLM products are growing at a rapid rate. "They literally sell themselves."	The sale of products is distributor-driven, not market driven. Most products are sold to new participants to get in on this "ground floor opportunity."
"It takes time to build any business." "This is not a get-rich-quick scheme, but a 'get-rich-slow' program." "Don't expect instant success," etc.	MLM promoters sell recruits on their programs as a business, but defend it to authorities as a "direct selling" opportunity. However, In legitimate direct sales programs, sales persons earn commissions right away and don't have to wait months or years for commissions to exceed expenses.
Take advantage of "momentum" and "windows of opportunity."	Again, this kind of appeal has been used for twenty years. In any endless chain scheme, the momentum cannot continue indefinitely, leaving those who come in later in a loss position, which is approximately 99% of recruits.
In this new (MLM) program, you can be the master of your destiny.	You will be a slave to the phone, to meeting the qualifications for commissions and bonuses, and to continual pressure to recruit new participants to replace dropouts. You are also caught in a money trap of hyper-consumption.
Unlike franchises, business startups, or sales of existing businesses, you can start an MLM business with very little capital.	MLM's typically bleed new recruits of their funds by inducing them to buy products on a subscription basis, to pay for ongoing training, and otherwise draining them of their resources until they run out of money or give up.
Fear of loss (of potential income by not recruiting aggressively) is a great motivator.	If MLM participants understood what is happening to them, they would fear accumulating further losses by continuing to invest in the MLM.
You will belong to a great support team. In MLM, you have a whole network of people willing to help you succeed and be your friends.	Some MLM's operate like a cult with an "us vs. them" mentality. Watch how quickly the team ostracizes you when you quit or discover contrary information about the legitimacy of the program.
You will be offering people you care about the very best products available for promoting their health and well being.	No matter how high the quality of the products, investment in products for which you do not have orders in hand becomes a cleverly disguised means of laundering investments in a product-based pyramid scheme.
Our products are unique and consumable – perfect for repeat business.	MLM products are typically "potions and lotions." The secret formulas are a cover for the fact that they are priced too high to compete in standard markets.
Products are less expensive through MLM because you cut out the middleman.	MLM creates thousands of middlemen, with few real customers outside a bloated network of "distributors" ("agents," "consultants," "demonstrators," etc.) And typically, they are very expensive; i.e., not competitively priced.
Build your business by duplication. Buy five of these "business in a box" packages now, sell them to five people, and ask each to do the same, etc. Be a "product of the products" by signing up for monthly shipment of these items. Soon you will be reaping huge commission checks.	This is how recruiting MLM's earn fortunes for their top recruiters. Commissions from initial and ongoing purchases by new "distributors" (in hopes of profiting) is the life blood of their business. The promised rewards never come, except to those who recruit their way to the top of a pyramid of participants. Take away inducements for participant purchases, and these companies would fall like a house of cards.
Our "tools for success" are unbeatable. Sign up for our seminars and conferences, and buy our books and tapes to assure your success in this business.	In at least one major MLM, the "tools business" is a pyramid within a pyramid. Hardly anyone makes money selling products, so a lucrative source of income for those at the top is the sale of "success tools" to supposedly assure the success of their downline – who are in fact only further victimized when they buy these motivational items.
MLM is like insurance, investing, inventing, acting, and writing in that hard work at the outset yields residual income for the rest of your life. This is done by "leveraging" the efforts of your downline. So you can retire early, travel, etc.	MLM is more like gambling than legitimate residual income. It appeals to the "something for nothing" mentality. MLM addiction has been observed in some "true believers." The large residual incomes reported are more the result of time of entry and willingness to deceive prospective recruits than of payoff for hard work. To succeed in MLM, one must leverage one's deceptive recruiting through others who can be persuaded to do the same..
Some very reputable people are involved in MLM.	This credibility argument is used with many scams. Notables can be bought.
Some MLM companies invest in very worthy (and visible) causes.	The mafia supported local charities. And because a bank robber donates some of his take to charity, does that excuse the robbery?
You will be helping your friends and family by recruiting them into your downline.	For potential personal gain, you are exploiting those you care about the most. In other words you are squandering your social capital.

**IMPORTANT NOTE:** Again, after studying the compensation plans of over 250 leading MLMs, I have to conclude that the multi-level marketing model is inherently flawed. Virtually all MLMs are dependent on deceptive recruitment of an endless chain of participants as primary (or only) customers. While many or most participants are not deliberately deceiving recruits, they are unwittingly drawn into the complex web of deceptions listed above - since to tell the truth would lead to failure in their recruiting efforts.

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

- (1) Be deceived
- (2) Maintain a high level of self-deception
- (3) Go about deceiving others
- (4) Maintain denial of the harm done to those recruited into

**the chain or pyramid of participants.**

**The degree of deception (and even total amounts in aggregate damages) exceeds the deceptions reported in the Enron stock scandal (with similar findings in the financial reports of WorldCom and Global Crossing). However, in the case of MLM, participants engage in self-deception as much as in any deliberate misrepresentations. In short, the typical MLM is a lie and engages in massive theft by deception.**

© 2008 Jon M. Taylor