

## No-product Pyramid Schemes - vs. Gambling - vs. Sample "Recruiting MLM" (multi-level marketing) Programs

### WHICH DOES THE GREATER HARM?

By Jon M. Taylor, Ph.D., Pres., Consumer Awareness Institute, and Director, Pyramid Scheme Alert

PYRAMID SCHEME, GAMBLING or MLM (multi-level marketing) options to be compared	Reference title	% who profit (small pyramids on chart)	% who lose money (tall pyramids on chart)
-----------------------------------------------------------------------------------------	-----------------	-------------------------------------------------	----------------------------------------------------

*(All numbers are best approximations based on available data)*

<b>NO-PRODUCT PYRAMID SCHEMES*</b>	No-product pyramid schemes	9.60	90.40
<b>GAMBLING - single bet on one number at roulette in Las Vegas**</b>	Gambling in Las Vegas - Roulette	2.86	97.14
<b>Average odds of earning a profit in 6 recruiting MLM companies for which data was available***</b>	Average of 6 recruiting MLM's	0.05	99.95

\*Two examples were used: "The Original Dinner Party", (ABC News - Prime Time, 2/22/01) and "The Airplane Game" (False Profits, by Robert Fitzpatrick, 1997). When the pyramid collapses, those at the bottom levels lose their investment. **Such schemes are generally understood to be illegal in the U.S.** (Over 6 completed cycles of the pyramid, the odds of profiting drops to 6.3% if winning participants reinvest at the completion of each cycle -and rises to 11.81% if everyone drops out after a one-time investment. The 9.6% is median average figure between the two for 6 cycles.)

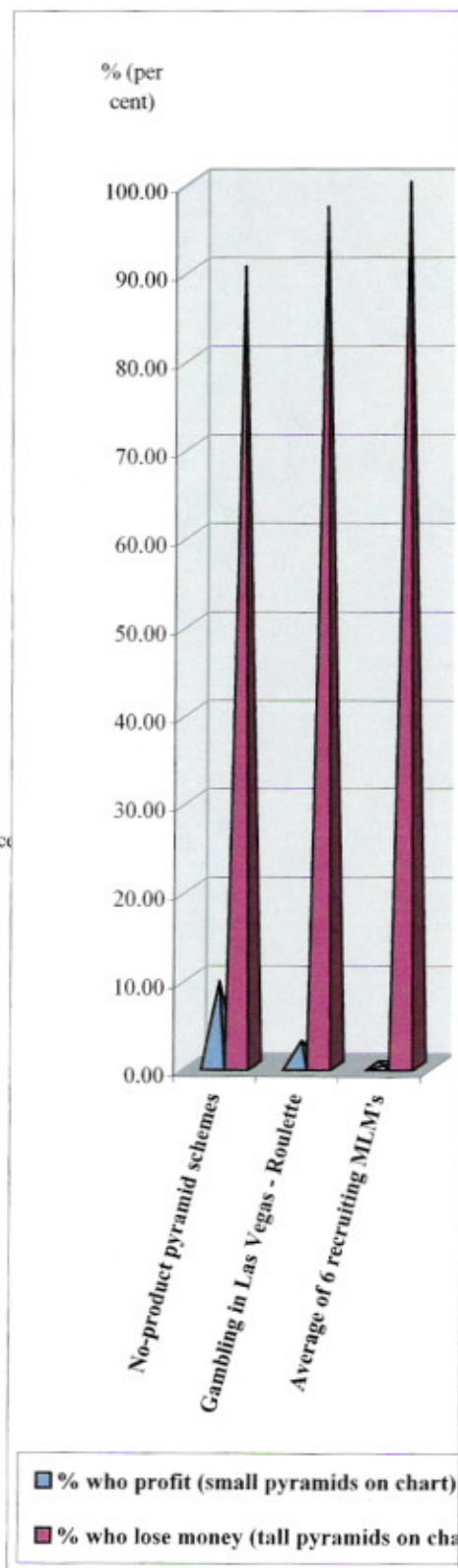
\*\*Odds are for a single bet on one number at Caesars Palace in Las Vegas (statistics posted 4/26/01)

\*\*\* The odds of realizing an actual profit after all expenses (including purchases from the company) for all of the six MLM companies was found to be less than 1% - far short of what was portrayed by their promoters. Five of them are prominent MLM companies - Amway/Quixtar, Nu Skin, Melaleuca, Nikken, and Excel Communications. The sixth (Renaissance) was found to be an illegal pyramid scheme by a federal court in Kansas and shut down. Of the five remaining MLM companies, data was obtained from court records, internal reports, SEC and FTC filings, and reports of ex-distributors. Information supplied by the companies required the debugging of deceptive data, which seemed to be endemic in MLM reporting. Three primary deceptions had to be corrected - (1) the elimination of the entire base of base of distributors who signed up as participants, substituting a figure for only those "active," (2) the avoidance of any mention of expenses, including purchases from the company required to advance in the compensation plan, and (3) the assumption of sales at retail price that did not in fact occur. **All five companies are members of the DSA (Direct Selling Ass'n.), which lobbies for legislation exempting MLM companies from prosecution as pyramid schemes.**

These are generous estimates of MLM "success" for recruiting MLM companies (those with compensation plans that reward recruiting far more than direct sales - which is true of most MLM's. See NOTE below.) The vast majority of MLM's show similarly bleak odds of "success." **Not only are the odds much greater, but the payout for no-product pyramid schemes and for a single bet in a game of craps are many times that of the average profit for MLM's.** For MLM's such as the the 6 MLM's averaged here, repeated product purchases enrich a few participants at the top of the hierarchy, at the expense of a multitude of unwitting downline participants, approximately 99.9% ofwhom lose money, after subtracting all expenses and product purchases from the company - in spite of the glowing promises of their promoters. **The reason no profits for MLM "pyramids" appear on the chart is that the percentages of participants who profit are so infinitesimally small that they do not register on the chart.**

NOTE: For the "5 Red Flags" that signal that an MLM is a recruiting MLM (product-based pyramid scheme), or for other information, go to - [www.pyramidschemealert.org](http://www.pyramidschemealert.org).  
Or e-mail to: [jonmtaylor@juno.com](mailto:jonmtaylor@juno.com).

*Copyright 2004 Jon M. Taylor*



aveMLMvsNPSvsVegas - Exc A vortical 6-4.xls