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8K A WEEK

THE RELIEF TEAM

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Greetings 'Relief Team'! It is my pleasure to invite you to peruse this short but comprehensive MLM Study Letter. All comments and questions concerning this study are appreciated.

Multi-Level Marketing and Pyramid Schemes

Multi-level market (MLM) or **network marketing** is an American institution. Companies like Amway, Tupperware, Herbalife, Avon, Mary Kay and The Pampered Chef support huge networks of distributors and recruits who sell every type of product from **dietary supplements** to kitchenware to beauty products. Salespeople are called **independent business owners (IBO)** and generally work from their homes.

On the surface, it's hard to tell the difference between a legitimate MLM and a Pyramid Scheme. That's because they're both built on the business model of "Multiple Levels" of distributors and recruits. Some critics of MLM's claim that all of them, even the supposedly "legitimate" ones, are pyramid schemes in disguise.

In a landmark 1979 ruling, the Federal Trade Commission found that Amway was not a pyramid scheme. That ruling has paved the way for hundreds of MLM's to follow Amway's business model. The Amway Web site highlights the differences between it's unique "Business Opportunity" and a pyramid scheme:

- Amway doesn't pay distributors for simply recruiting new salespeople.
- The only way to make money through Amway is either by selling products directly to consumers or by managing a team of salespeople. Managers get a percentage of each of their recruits' sales.
- Amway doesn't require it's salespeople to buy starter kits or impose a minimum monthly order value to stay a member.

Amway stresses that the main difference between a legitimate MLM business model and a pyramid scheme is that a legitimate MLM is focused on selling products, not recruiting more salespeople. In a legitimate MLM, it should be

possible to make money by simply selling products directly to customers. With that main criterion in mind, here are some other ways to identify product-based pyramid schemes:

- Pyramid schemes offer money for simply recruiting people. This money can come as a commission from the sale of a starter kit or as a recruiting "bonus."
- Avoid any MLM that puts much more emphasis on recruiting salespeople than selling the actual product.
- Pyramid schemes charge steep startup costs for joining, including mandatory training, a starter kit and a non-refundable membership fee.
- Beware of any MLM that allows five or more levels of distributors to collect commissions on a single sale.
- Make sure that the products being sold have real value and a competitive price. Are they reputable brands? Have the manufacturers been involved in recent lawsuits?
- Avoid MLMs that only sell lists of sales leads to other MLM salespeople. This is most likely outdated information that has made the MLM rounds several times before.
- Avoid signing up for an MLM as part of a high-pressure motivational event. Consider the information carefully and take it home to think about it.
- Be wary of anyone who tries to sell you on an MLM by flaunting their personal wealth. Realize that many of the people who claim to have made millions through MLM have actually made their money selling books and videos on how to make millions through MLM's.
- Bottom line: If it sounds too good to be true, then it probably is.

MLM Setup

Independent, unsalaried salespeople of multi-level marketing, referred to as distributors (or associates, independent business owners, dealers, franchise owners, sales consultants, consultants, independent agents, etc.), represent the company that produces the products or provides the services they sell. They are awarded a commission based upon the volume of product sold through their own sales efforts as well as that of their downline organization.

Independent distributors develop their organizations by either building an active customer base, who buy direct from the company, or by recruiting a *downline* of independent distributors who also build a customer base, thereby expanding the overall organization. Additionally, distributors can also earn a profit by retailing products they purchased from the company at wholesale price.

This arrangement of distributors earning a commission based on the sales of their independent efforts as well as the leveraged sales efforts of their downline is similar to franchise arrangements where royalties are paid from the sales of individual franchise operations to the franchiser as well as to an area or regional manager. Commissions are paid to multi-level marketing distributors according to the company's compensation plan. There can be individuals at multiple levels

of the structure receiving royalties from a single person's sales.

Legality and Legitimacy

MLM businesses operate in the United States in all 50 states and in more than 100 other countries, and new businesses may use terms like "affiliate marketing" or "home-based business franchising". However, many **pyramid schemes** try to present themselves as legitimate MLM businesses.

Because **pyramiding** (getting commissions from recruiting new members including "sign-up fees") is illegal in most states, to remain legitimate in the U.S. a company that uses multi-level marketing has to make sure commissions are earned only on sales of the company's products or services if they cross state boundaries. If participants are paid primarily from money received from new recruits, or if they are required to buy more product than they are likely to sell, then the company may be a **pyramid scheme**, which is illegal in most countries.

In a 2004 United States **Federal Trade Commission** (FTC) Staff Advisory letter to the **Direct Selling Association** states:

Much has been made of the personal, or internal, consumption issue in recent years. In fact, the amount of internal consumption in any multi-level compensation business does not determine whether or not the FTC will consider the plan a pyramid scheme. The critical question for the FTC is whether the revenues that primarily support the commissions paid to all participants are generated from purchases of goods and services that are not simply incidental to the purchase of the right to participate in a money-making venture.

The FTC offers advice for potential MLM members to help them identify those which are likely to be pyramid schemes.

However there are people who hold that **all** MLM's are nothing more than pyramid schemes even if they are legal rendering the whole issue of a particular MLM being legal questionable.

IN LOVE AND RESPECT

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