

Hidden, Obscured and Denied...

10 BIG TRUTHS

ABOUT

MULTI-LEVEL MARKETING

by Robert L. FitzPatrick

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10 Big Truths about Multi-Level Marketing

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Credits: Many colleagues contributed to the knowledge base on which this paper stands. My gratitude is extended to all. In particular, researcher and consumer advocate, Dr. Jon Taylor, contributed greatly to my understanding of the defining elements of multi-level marketing and pyramid schemes, revealing the common traits and the inevitably same consequences. English writer David Brear has courageously explored the cultic identity of multi-level marketing as a ritual belief system, exposing the phenomenon to be far larger and more significant than merely a fraudulent business scheme. Trafficking in cultic mind control methods and its utopian and false promise to all followers of “unlimited income,” Brear reveals MLM’s capacity to shape the thinking, impose values and destructively control the behavior of large numbers of people, thereby also revealing MLM’s threat to individual freedom and democracy. Wisconsin Asst. Attorney General (Ret.), Bruce Craig grounded my understanding of MLM in the harm and deception inherent to all “endless chain” financial propositions. He additionally aided me in seeing the flaws and inadequacies in the 1979 legal decision by a single Administrative Law Judge on which MLM’s “legality” is said to be based. Class action attorney Douglas Brooks added to my understanding of the legal aspects of MLM involving criminal racketeering. He also developed and publicized an illuminating regulatory remedy – prohibiting any rewards derived from personal purchases and related payments by the MLM participants themselves, thus requiring rewards to be based only on external, retail sales. This simple approach insightfully cuts to the heart of MLM’s primary method of causing harm — creating and perpetrating a closed, internal money transfer, with funds obtained directly from the participants, the essence of all Ponzi and pyramid schemes. To many others, I am grateful for the inspiration they provided with their own courageous actions to reveal the truth about MLM’s delusions, manipulations and deceptions.

Cover: The Unicorn silhouette signifies the mythical character of what is called “multi-level marketing.” This self-invented, pseudo-economic term is widely used, without examination, to support and to legally permit a financial proposition that nakedly requires deception and inevitably results in massive consumer harm. The myth of a “sales” business in which individuals earn “unlimited” profit primarily from personal retail sales and the personal retail sales of all those subsequently recruited in a perpetual, ever-expanding chain, has enabled MLM to operate, much as the Unicorn belief endured for centuries. Unicorns were believed to be a natural animal but also with magical powers. MLM is depicted as a both a conventional “sales” business but one with the magical power, based on its unique design that is unavailable to any other business, to expand *perpetually*, unaffected by the limits of mathematics, the economics of supply-and-demand or the demographics of saturation. Just as Unicorns were never reliably observed, the “retail-based” MLM, providing a broad-based income opportunity, has never been found.

Introduction

A lie can travel halfway around the world while the truth is putting on its shoes.

– Mark Twain, (*attributed*)

Sometimes the revelation of truths involves breakthrough-discoveries. More often it is reached after long term scientific testing and peer review. Yet, whether it arrives suddenly or gradually or whether data and evidence are clear and irrefutable, it still has to overcome fixed beliefs that have grown up in the absence of the new knowledge. This process of public acceptance can take a long time.

In the case of “multi-level marketing,” it is not absence of information about pyramid schemes, endless chains, direct selling and financial fraud or any previous beliefs that have enabled the myth of MLM as “direct selling” and the “greatest income opportunity in the world” to develop and endure. The truth about multi-level marketing is in plain sight and has been known since MLM first emerged. The truths are supported by common sense, mathematics, and historically-verified, data-supported and directly-experienced facts that are easily found.

In MLM, myth has prevailed over reality due to the *active propagation* of fabricated claims and deliberate lies, a massive campaign of dis-information, concealment, contrived statistics and phony testimonials aimed at obscuring, hiding or denying facts of how it actually works, where the money comes from and the scale of losses it causes. The MLM myth is a classic example of the Big Lie phenomenon, a false assertion so outrageous and blatant in its deceptiveness that ordinary people can hardly even imagine it to be deliberately fabricated. The Big Lie is now understood as a classic technique of propaganda used both commercially and politically. It is based on the premise: *People will believe a big lie sooner than a little one; and if you repeat it frequently enough people will sooner or later believe it.*

Other “rules” associated with the Big Lie are regularly applied in promoting the myth of MLM as a legitimate business opportunity, such as *never admit a fault or wrong... never leave room for alternatives; never accept blame... blame (others) for everything that goes wrong.* The power of the Big Lie includes not only imposing beliefs but also subverting and inhibiting faculties and voices of reason and experience that contradict them. It follows, then, that MLMs operate as authoritarian, thought-controlling organizations in order to perpetrate the Big Lie about “income opportunity” and “direct selling.” This includes large-scale lobbying and corruption of governments to prevent investigation and law enforcement.

MLMs are often called “blame-the-victim” frauds for their universal practice of assigning “blame” for the inevitable financial losses to the victims themselves. The practice is summed up in the classic MLM aphorism, *Only Quitters lose and only Losers quit.* Virtually all MLM participants do inevitably quit, most within one year. Yet, due to techniques of the Big Lie employed by MLM promoters – including the absence of law enforcement – most MLM victims remain silent, enmeshed in confusion and shame or fear of retribution or possible incrimination. Many take on the shameful status, assigned by the MLM of “loser,” which can afflict them for years.

The truths in this paper, therefore, are not a product of new discovery or of “complex economic analysis” but simply of removing the myths and confronting the Big Lie. The truth becomes obvious when the myth is set aside and reality allowed to be examined. Indeed, the

entire MLM program, when the Big Lie is confronted, is revealed to be an absurd, almost comical charade, replete with fatuous promoters, snake oil remedies and gaudy spectacles shamelessly celebrating gross materialism and greed. This is perhaps why the best debunking and truth-telling about MLM has thus far been done by [satirists](#), [stand-up comics](#) and [cartoonists](#).

Nevertheless, when myths, even thinly disguised and concocted ones that can be readily debunked, are supported by governmental and other institutional powers and when the myth generates enormous, ill-gotten profit, telling the truth about it is met with militant denial and sometimes vicious personal attack.

As MLM's "income promise" spread on Main Street, gained Wall Street backing, and utilized PR firms and K-Street lobbyists, many who have stated the plain truths outlined in this paper, have had their character and credibility attacked and been sued. Websites have been forced to close under threats from MLM attorneys. Complaints to governments have fallen on "deaf" ears or even led to investigations of the whistle-blowers. Other voices have been marginalized as merely "critics" or impugned as "anti" MLM. Many journalists admit they avoid the topic and do not delve deeply into MLM out of fear of lawsuit or personal attack.

This pattern of contrived myths replacing reality with the support of high finance, PR and political power is certainly not unique to MLM. It occurred in the same manner in the housing and banking catastrophe of 2008 and the Bernard Madoff Ponzi disaster, and now, in the opioid epidemic and student debt crisis. Other examples could be cited in other fields. It occurs wherever ill-gotten money and victim silence, intimidation or powerlessness coincide.

Yet, truth has a way of surviving and re-emerging despite the forces seeking to suppress it or to confuse or intimidate those who get it. Sometimes with ridicule and a sense of the absurd, often with satire, occasionally with class action suits, and with documentaries, investigative journalism, independent blogging and courageous whistle-blowing, one way or another, the truth will be not be denied.

*Hidden, Obscured and Denied...***Truth #1: Multi-level marketing has little or nothing to do with “direct selling.”**

Virtually no MLM participants gain a net profit from personal, direct selling on a retail basis. There is no record of consumers gaining a sustainable profit just from reselling MLM products in the open market. The FTC verified this reality in



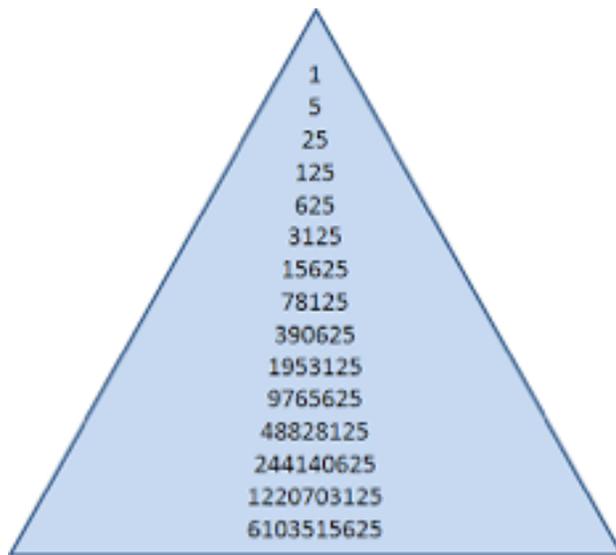
Herbalife when it conducted a two-year investigation of that MLM, one of the oldest and largest. It determined that Herbalife “distributors” did not and could not gain a “retail profit” income. The only possible income came from recruiting more investor-participants. Common sense alone reveals that no one, today, could earn a sustainable income selling MLM commodity products on their own, from their home. MLM-type products are already in stores or online at lower prices. No one needs a personal salesperson to buy

such goods or has the time to listen to sales pitches. The costs of personal marketing and individual selling are too high to gain a profit or make it worth the time. The MLM model produces more and more competitive “retailers” in every location and every potential retail customer is offered the chance to buy at wholesales, making retail selling not feasible.

MLM is disguised to *look like* direct selling, with the use of products and words and names taken from the real business of direct selling, such as “commissions, bonuses, retail, and distributor.” This is only disguise. The “direct sellers” in MLM have few or no customers. “Downlines” are just other “direct sellers.” MLM participants don’t “sell.” They buy and recruit others to do the same.

*Hidden, Obscured and Denied...***Truth #2: Multi-level marketing's structure is based on an audacious and obvious impossibility.**

The main fraud of multi-level marketing is in plain sight. It is the model of the “endless chain” of recruits, misnamed as “salespeople, associates, distributors, coaches”, etc. How could any sales organization have an “unlimited” number of



sellers operating in the same areas? How could a sales chain extend to “infinity?”

The MLM model actually is two-lies-in-one. First, obviously, as the number of participants increases, the chance to recruit a large downline diminishes for those at the end of the chain. The “opportunity” is not “unlimited.” It is finite and diminishing. The thousands at the bottom of the pyramid cannot possibly enroll as many recruits as those few at the top already have. Saturation prevents virtually all from finding

enough new people. Second, saturation aside, the recruiting chain pay-plan requires each participant to enroll a number of recruits before profit is possible. Therefore, a ratio of “winners” to “losers” is baked in right from the start. If 25 are needed, then only one in 25 could ever be profitable. This would be true the day the scheme is launched and would never change. The “income opportunity” is therefore — by design — limited to one in 25, or 4%. Based on the proposition of gaining profit from recruiting, 96% would always lose for as long as the scheme operated. In practice, the actual ratio is far worse.

*Hidden, Obscured and Denied...***Truth #3: Almost no one — far less than one in a hundred — has ever gained any net profit in multi-level marketing.**

Of all the people who have ever paid an MLM sign-up fee, signed an MLM “sales” contract, and hoped to make some money — millions and millions of people — the percentage that ever succeeded is too small to graphically illustrate. This reality of the absence of “income opportunity” sold as “the best income opportunity in the world” is perhaps the biggest deception that has been sown. Millions of people have been misled to believe that MLM is a viable investment, maybe their best hope to make money, better than their current job, superior to other businesses, more lucrative than the potential from higher education or the corporate ladder or even professions. The contrary and brutal reality — that it is a swindle — is verified in all MLM “income disclosures” when they are deciphered, and it is revealed every time an MLM is prosecuted. The most shocking figure is the percentage of people who made a profit, among the total that ever joined the MLM scheme since it began. Since MLMs churn 50-80% of recruits every year, new recruits should calculate their odds of success with all that ever joined. That calculation shows the percentage of “winners” to be a micro-percentage of one percent, effectively, no chance at all.



All statements or claims about “average incomes” in multi-level marketing are, therefore, false on their face. There is no income “on average.” The median (half make more and half less) is Zero (it would be a negative figure if costs were factored). MLM promoters spread contrived statistics about income averages — restricting data to a one-year or even one-month time frame, and limiting data only to a small portion of the total participants, sometimes called “actives” or “active

with a downline” or those who “received a check.” They often combine the incomes of the few top recruiters with a selected, limited group, excluding the majority, to produce a false “average.” They take manipulated data for a single month and then create a fictional “annualized” average, even though most quit in less than one year of participation. MLMs also misuse and manipulate “testimonials,” most of which are actually false or absurdly exaggerated, to create the misleading impression that making money in MLM is feasible for most recruits, and that “anyone can do it.” The shocking truth, revealed in disclosures, filings with the government, in court cases, or from government prosecutions is near universal losses. The net losses of nearly all participants are not due to individual ambition, work habits or time commitments. They are caused by the model itself. (see Truth #2).

*Hidden, Obscured and Denied...***Truth #4: Most, nearly all, product purchases by MLM participants are driven by MLM rules, purchase-requirements and reward-promises.**

Without the connection of *promises-of-rewards to purchasing-of-products* and without *purchase-quotas* and *purchasing-requirements* few people would ever buy MLM products. The products, typically, are higher priced than similar products in stores. Without the pot-of-gold “incentives,” many people would simply never buy MLM products at all because they never heard of them or never wanted or needed them in the first place. Most MLM participants begin to purchase MLM products only after being solicited to join the “business opportunity” and signing a lengthy



and restrictive commercial contract that redefines them as “independent distributors.” In signing, they relinquish normal consumer rights such as easy return of products, freedom to criticize or do what they want with the product or resell it as they wish. After signing up, to become or to remain qualified for promised rewards tied to recruiting MLM participants must then meet volume quotas that can be

fulfilled, partly or fully, by making personal purchases every month. Many MLMs persuade participants when they sign up to commit to automatic monthly purchases on their credit cards to ensure continued “qualification.” Failure to make the quotas results in loss of status or disqualification for promised rewards. Overall, most MLM participants stop buying MLM products within one year or less and never purchase them ever again.

In total dollars, all MLM products amount each year to less than 1% of all retail sales, however,” even apart from the income scheme requirements that deceptively induce purchases, very little of these MLM purchases can be classified as “retail sales.” They are legally classified as wholesale transactions. Most MLMs even charge the participants sales tax based on a mythical (and much higher) retail price, confirming the pretense that the goods are to be re-sold to end-users, though they almost never are.

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Truth #5: MLMs are dependent on constantly recruiting new people to replace all those that quit.

Most MLM participants quit within one year. Almost all gain no net profit, and lose time and money from the scheme.

Annual quitting rates among MLM participants are between 50% and 90%. If the MLM does not replace the quitters, it will soon collapse. To continue, MLMs keep expanding to new areas, concealing the quitting and loss rates, and aggressively promote the false claim that the schemes offer a “unique” and “extraordinary” income opportunity for all. As MLMs expand to new

areas, revenue “pops,” and as the inevitable losses occur, revenue “drops,” triggering the need for more geographic expansion or the targeting of new groups. There is no stable or sustainable “sales force” and no stable or sustainable “customer base.” There is only constant recruiting based on a false income promise. MLMs are in a *constant state of continual collapse*, but the cost of the collapse is borne only by the newest recruits who join the scam, lose their money and then quit: meanwhile the scheme itself can continue operating if enough replacement-recruits are found.



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Truth #6: “Multi-level marketing” is undefined and its identity is a fiction.

The US government defines “legitimate multi-level marketing” as a type of enterprise in which participants can earn money from their own retail sales and from commission overrides based on the retail sales of other participants they recruit in a genealogical chain. Yet, the FTC has never identified a single MLM company that meets this definition! Since no one in MLM actually does gain or could gain sustainable profit from retailing, (see Truth #1), no one also gains income from retail sales of those recruited. The legitimate, retail-based MLM is as real as a Unicorn.



Unicorns are depicted in art and literature and some people may even believe they exist. In reality, retail-based MLM enterprises, like Unicorns, do not exist. The very term, “multi-level marketing” means nothing. MLMs are not “multi-level.” They have “endless” levels. MLMs do not operate in the “market” but within a closed and controlled network with fixed prices and purchasing induced by promises of financial reward, unrelated to the products and consumer market factors.

*Hidden, Obscured and Denied...***Truth #7: MLM is unregulated; according to the FTC, there is no way for a consumer to know if an MLM is a fraud.**

Consumers are *on their own* for evaluating MLM solicitations and avoiding pyramid fraud by MLMs. There is no “consumer protection” from deception and harm at the hands of MLM recruiters. MLMs operate without regulation. There is no federal law that includes the terms, “multi-level marketing” or “pyramid scheme.” The Federal Trade Commission (FTC) has become the primary law enforcement agency that prosecutes MLMs as “pyramid schemes” but the FTC has never conducted a survey of the “industry” to see whether fraud is predominant. In the past 35 years, FTC has prosecuted less than 30 MLMs for pyramid fraud; all have been small MLM companies. The FTC advises consumers that “MLM is legitimate” but also warns that “some” MLMs are pyramid frauds. Yet, the FTC also states that it is unlikely ordinary consumers can distinguish what it defines as “legitimate MLM” from a pyramid fraud, claiming it would require “complex economic analysis.”



Meanwhile, there is not even an FTC requirement for MLMs to make financial *disclosures* in solicitations, as there is for franchising, which is a legitimate and sustainable business model. The FTC actually *exempts* MLMs from disclosing *any financial information at all* — e.g., loss rates, average incomes, saturation, operating costs, etc., — to consumers when they solicit money.

Even when MLMs are prosecuted as pyramid schemes, the offense is treated only as “unfair and deceptive *business practice*,” not criminal fraud, even though thousands of people are harmed and consumer losses may involve billions of dollars. By defining a “pyramid scheme” as only a civil offense or at most a misdemeanor, some “anti-pyramid scheme” state statutes and *occasional* FTC prosecutions effectively *protect* MLMs and shield MLM leaders from doing jail time while also allowing deceptive schemes to continue and multiply.

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Truth #8: Multi-level marketing stresses, harms and sometimes destroys social and professional relationships, families and marriages.



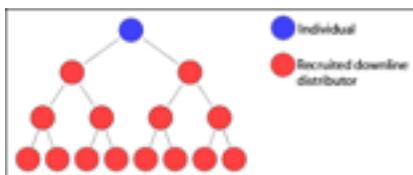
By violating the common-sense, practical and proven custom to keep personal and business relationships separate, MLMs cause disruption and harm. Since the MLM “business opportunity” inevitably results in financial losses for nearly all and requires deception, recruiting friends and family into MLMs obviously creates mistrust and resentment. When trust, affection, family ties and professional connections are misused for MLM recruiting, relationships are weakened or even ruined. The results are frequent disputes, divorces, alienation and blame.

Those that become immersed in MLM deception will often try to manipulate and deceive the people closest to them for recruiting purposes, often destroying those nurturing relationships. When the MLM recruiters later quit the schemes themselves, they often discover they have lost the support of their family, close friends and social network. Some people remain trapped in MLM because they have harmed or neglected their life-long connections.



*Hidden, Obscured and Denied...***Truth #9: The characteristics of “multi-level marketing” are the defining characteristics of a pyramid scheme.**

A pyramid scheme is a fraud in which a financial investment is solicited based on a promise of profit that will be derived primarily from the new participants who are solicited by earlier participants. Unless new participant-investors are successfully recruited, there is no feasible profit. A pyramid scheme is inherently deceptive and is illegal because the promised rewards cannot continue to be fulfilled. The



continued expansion that the promise *requires* cannot occur. The majority of all who invest *must* lose. Solicitations are therefore *inherently* deceptive and pyramid schemes *always cause* financial harm.

The defining elements of MLM perfectly match this description. These include:

- *An impossible “endless chain” structure*, with no limit based on geography or market size, creating the false promise of “unlimited” income opportunity for all participants based on the illusion of perpetual expansion capacity.
- *A requirement to make a payment* (financial investment, also called “pay-to-play”) to join the recruiting chain, usually in the forms of entry fees, product purchases and related costs (start up “sales” kits, monthly purchase quotas, fees for websites, “back office,” leads, seminars, etc.)
- *The effective requirement to recruit* other investor-participants in order to gain the promised rewards. The claim that income can be gained from retail sales is only a sham invented for the purpose of disguising the recruiting scheme as “direct selling.” (see Truth #1). Net profit is available only to a few and only from recruiting.
- *A closed, money transfer* in which rewards come primarily from the investments of newly recruited participants, not from the external open market, based on retail sales. The “reward” payments are merely the recruits’ own money moved from later recruits to earlier ones inside a closed network, unrelated to the true marketplace. Making the losses even greater and harming even more people, MLM pay-formulas (“compensation” plans) – as all pyramid schemes do – transfer *most of all the money* gained from later investor-participants *directly* to the earliest promoters situated at the very top of the pyramid. At least half of all “commissions” paid out to all levels of the entire chain are transferred directly to 1-4% of participants positioned at the top of the pyramid each year.

*Hidden, Obscured and Denied...***Truth #10: Multi-level marketing employs cult persuasion techniques to deceive and control.**

All cults promise some kind of utopia or unique status to followers, and they also create fear among the followers that failure to follow the cult's program and to remain in the cult will result in terrible consequences. Cults use well-known methods to shut down critical judgment and induce self-destructive and irrational actions from large numbers of people. MLMs qualify as



cultic due to their claim, unique in the business world, to be able to expand to “infinity” and to have the power to provide “unlimited” income to all that follow the program. MLMs promote “financial success” and “wealth beyond imagination” as a form of heaven-on-earth. MLM leaders claim to have esoteric knowledge of the “secrets” of success. The cultic tools of mind control used by MLMs and the hallmark characteristics of cults exhibited by MLMs include:

- *Deception* - The greatest of the deceptions is the MLM claim of a "direct selling" identity, when the reality is endless-chain-recruiting. Hence, all recruit enter MLM schemes without full consent of participating in its *actual* program. All cults maintain a false identity, disguising their true operations and motives from those they recruit.
- *Self-anointed god-like leadership* - Unlike traditional business with accountable boards or professional management standards, MLM leaders are self-portrayed as enlightened masters, god-like figures. To question them is considered self-defeating and a road to failure and shame.
- *Manipulation* - Recruits are required to make purchases, led to believe they will gain “unlimited income” and cunningly sent on a fool's mission to extend the "endless chain." They are denied information on massive attrition rates, the limits of saturation or the built-in ratio of losers to "winners." Family and friendship are manipulated for commercial ends. Participants are told to keep buying and recruiting, to "never quit." The inevitable failure is then callously blamed on the recruit.
- *Sudden and significant changes of personality and behavior among followers* - MLM recruits are constantly subjected to what cult-expert, Robert Lifton termed *thought-terminating clichés*. Recruits are taught to assume a superficial and constant upbeat attitude

making them unable to look at their own circumstances factually. Constant exposure to specialized, manipulative language and visions of future wealth leads to recruits mimicking the terms and phrases and becoming disinterested in their existing jobs, or family relationships. Family and friends ask, "What happened to our son/friend/spouse?"

- *Pseudo-science or pseudo-economics* - MLM schemes claim to have the "secret to wealth and happiness" which MLM leaders often claim to have learned from "masters" or due to a spontaneous and transformative awakening. Many MLMs claim to sell products that provide "perfect health," alter genes, boost immunity, or even cure terrible diseases. The MLM "system" is said to be the "greatest opportunity in the world" and to be last bastion of the American Dream. The secrets to success and happiness, the miracle products, and pathway to wealth are promised – for a price – and offered only to those who unquestionably believe the leaders and follow their direction of the leaders perfectly.
- *Control of information* - Recruits are told to shun anyone who questions the MLM "plan," to associate only with "positive" people (other MLMers), to constantly study the words and thoughts only of the "leaders" in their writings and speeches, even to avoid using a calculator or researching on the web for independent analysis purposes.
- *False or fearsome justification* - Attend any MLM and you will hear the oddly similar message of looming economic disaster facing recruits, unless they join the MLM. Career opportunities in corporations are dismissed as worthless and foolish pursuits; professions such as teaching and nursing are defiled as work for "losers;" jobs are demeaned as "wage slavery." Only MLM can provide wealth, security and happiness, recruits are told.
- *Extreme Structural complexity* - MLMs are corporate and organizational labyrinths, with subsidiaries in a hundred countries. Compensation is said to move upward through "infinite" numbers of levels. The MLM pay-plans include so many qualifiers, ranks and requirements, they are beyond understanding. Whistle-blowers, analysts that critique the MLM "model" and investigative journalists are routinely dismissed by MLM promoters as "not understanding" how MLM operates.
- *Authoritarian control* - MLMs, like destructive cults, are rigidly *authoritarian*, stifle critical thinking and suppress individual freedom. Inside the MLM, leaders are above criticism. Dissent and questions are treated only as negative and signs of lack of faith, loss of confidence or ignorance. Some MLM "sales" contracts legally forbid disparagement of the product, the company or the leaders under pain of dismissal. Downlines lists developed by the participants become the property of the *MLM company*, not the participants who recruited them. Joining or associating with other MLMs, even those with different products, is not allowed, and the "non-compete" restrictions continue sometimes for months or a year after quitting. MLM critics are regularly depicted as deranged, misguided, or mal-intentioned. Quitters are vilified as lacking character or ambition.

Robert L. FitzPatrick is the co-author of the book, [False Profits, Seeking Financial and Spiritual Deliverance in Multi-Level Marketing and Pyramid Schemes](#) and the president of [Pyramid Scheme Alert](#), a non-profit, non-commercial association to expose, study and prevent pyramid schemes. Contact: info@pyramidschemealert.org