



## Proposal of “Full Disclosure” for a Multi-level Marketing Company

© 2010 Robert L. FitzPatrick

[RFitzPatrick@PyramidSchemeAlert.org](mailto:RFitzPatrick@PyramidSchemeAlert.org)

All sales Representatives of this multi-level marketing company are authorized to offer and promote both a product and an income opportunity to other consumers.

The following disclosures are provided to all prospective Sales Representatives regarding the promotion of this company’s *income opportunity*.

(Please note that there are other disclosures and requirements (not listed here) regarding promotions of this company’s *products*.)

### Historical and Potential Loss Disclosures:

- As a new Representative, you are joining at the lowest or first level of a \_\_\_ level (# of levels) sales organization.
- The *Median Average Income for those at the level you are joining* is \_\_\_\_\_.  
The *Median Average* means that half of all Representatives at this level earned more than this amount and half earned less.
- The *Median Average Income level of all Representative in all levels* who were enrolled at any time during the previous 12 months is \_\_\_\_\_.
- The percentage of *all Representative in all levels* who were enrolled at any time during the previous 12 months that earned no income at all is \_\_\_\_\_.
- The *Mean Average Income* of all those at the level you are entering is \_\_\_\_\_, that is, the sum of all commissions paid to those in this level divided by the total number of all who were enrolled at this level at any time during the previous 12 months.

### Historical and Potential Turn-over (churn/failure/quitting) Disclosures:

- Based on historical data, the percentage of all Representatives that enroll during a one-year time frame at the level you are now joining and elect not to renew their contracts, fail to meet minimum requirements to maintain their status, quit the business or are terminated by the company within their *first 12 months* is \_\_\_\_\_.
- Based on historical data, the percentage of all Representatives that enroll in a one-year time frame at the level you are now joining and elect not to renew their contracts, fail to meet minimum requirements to maintain their status, quit the business or are terminated by the company within their *first 24 months* is \_\_\_\_\_.
- Based on historical data, the percentage of all Representatives that enroll in a one-year time frame at the level you are now joining and elect not to renew their contracts, fail to meet minimum requirements to maintain their status, quit the business or are terminated by the company within their *first 36 months* is \_\_\_\_\_.

### **Retail Sales Profit/Loss Disclosures:**

- \_\_\_\_% of all Sales Representatives enrolled over 12 month period earned a net profit from retail sales during the year
- The Median Annual Average net profit of all Sales Representatives is \_\_\_\_\_

**(If the company has no proof of the percentage of Representatives earning a net profit from retailing or the average retail net profit, the following is disclosed)**

- The company has no records or data to show that Sales Representatives, on average, earn retail profits.
- The company has no information and therefore does not disclose the Mean or Median Average net profit of all Representatives from retail sales.
- The company has no information and therefore does not disclose the average volume of retail sales per Representative at any level.
- The company has no information and therefore does not disclose the average gross profit (percentage of selling price above costs) of retail sales for all Representatives.
- The company has no information and therefore does not disclose the average number of retail customers per Representative.

### **Recruitment-based Commissions Disclosures:**

As a new Representative, you can earn income from commissions gained from the total volume of personal purchases and personal sales of all other Representatives in your personal downline (those you recruit and those they in turn recruit in multiple levels).

- Income from this source *requires* that you recruit new Representatives.
- Failure to recruit more Sales Representatives will prevent you from participating in the primary income opportunity offered by the company.
- The more new Representatives you recruit, the higher the volume of your base on which commissions are calculated and the higher rate of commission on the total volume and therefore the greater your rewards.
- The less recruiting you do, the lower volume and the lower the commission rate and the lesser your rewards.

### **Risk Factors in Pursuing Income from Recruitment-based Commissions**

All Representatives are authorized to recruit new Representatives without any limitation on geography or total number in any area. Pursuing income from Recruitment-based Commissions carries the following risks and requirements that limit income potential:

#### **Financial Risks:**

- Recruitment-based commissions are restricted by the *finite, limited potential for expansion in any geographic area*.
  - Saturation of any given area for available customers and Representatives limits the opportunity for sales or recruitment.

- The company provides no data to Representatives regarding verifiable market potential or past development of the market or the number of other Representatives currently operating in any geographic area.
- Due to the finite limits of market growth and the presence of other competitors in all geographic areas, each new recruit added to an area correspondingly *reduces* the sales and recruitment potential for all other distributors.
- Recruitment-based commissions are also restricted *by the fixed ratio between the number of people being recruited to the bottom levels and those in the upper levels doing the recruiting.*
  - This ratio limits the total number of people who can ever hold upper level positions in the organization.
  - The ratio establishes a correspondingly much larger number of recruits required for the number of upper level Representatives to increase. There are market limits to how many people can be recruited.

### **Social Risks**

Soliciting friends and family into a recruitment-based income opportunity carries special risks and responsibilities greater than in other, less personal forms of sales and marketing. Financial success or losses from recruitment activity, and other commercial factors may affect personal and family relationships.

### **Business Costs Disclosures**

Pursuit of retail profit income or recruitment-based commission income requires financial expenditures.

- Maintaining active status as a Representative qualified to receive commissions may require a specified level of purchases or sales. Failure to meet these purchase/sales levels may result in loss of commissions or termination.
- The company does not disclose the average costs per Representatives per retail sale
- The company does not disclose the average cost per Representative to enroll a new Representative.
- Sales taxes based on published *retail* pricing levels must be paid on all purchases made by Representatives unless the Representative obtains a state license to collect and pay sales tax. If subsequent sales of the purchased goods are not made by the Representative or if the products are eventually sold at a reduced price, the difference in calculated sales tax is borne by the sales Representative.
- All other business costs are borne directly the sales Representative. These may include:
  - marketing materials
  - initial or monthly purchases to maintain minimum sales/purchase volume requirements
  - product samples and giveaway items
  - shipping
  - web-based access to company information
  - training programs
  - motivation events and materials
  - attendance at any meetings, conferences or conventions

- business licenses
- accounting fees
- personal computers
- stationery and business cards
- contract forms
- access to high speed internet connections
- purchases of leads of potential customers or recruits offered by the company or third parties
- mailing materials and postage
- advertising
- printing
- telephone
- travel, meals in restaurants and auto costs

### **Time/Effort Disclosures**

Pursuit of the company’s income plan requires the investment of time and effort. The company cannot estimate the actual time it may require you to pursue the goals you set in income for yourself. Time requirements may be substantial, even greater than conventional employment. Since all other consumers are potential prospects and all social events are potential prospecting opportunities, pursuit of the income opportunity may also include time and activities previously viewed as non-work related.

### **Disclosure of Requirements Associated with Marketing the Income Opportunity**

In recruiting other new Representatives to pursue the company’s income opportunity, all Representatives must disclose to their prospects:

- Income averages of all Representatives and those at the first levels. Income disclosure includes actual personal income if referenced by the Representative as part of the solicitation (You cannot falsify or exaggerate your own income and success level.)
- Failure/success rates
- Turnover/quitting rates
- Risk factors including inevitable or already existing saturation, increasing competition from other new Representatives including those recruited by the Representatives themselves, ratio limits between upline and downline
- Social and personal risks associated with recruitment and sales among friends and family members.
- The lack of historical information offered about retail sales levels and costs.
- Potential personal and business costs and risks associated with pursuit of profit from retail sales or recruitment-based commissions
- Any legal responsibilities, restrictions and liabilities associated with signing the “independent contractor” contract.

