

# NuSkin's Naughty\* Numbers\*\*

What few NuSkin recruiters know (and none who do know will say—or admit) about their “opportunity of a lifetime”—See accompanying spreadsheet

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NuSkin is to be complimented for making their average income data for each of the levels of distributors available to inquirers. Most MLM companies do not offer this service, so that the data is difficult if not impossible to obtain. (One serious problem is that adequate disclosure of the odds of success is not required by statute as it is for franchises or business opportunities.)

However, even the data supplied by NuSkin is misleading, in that important extensions and interpretations are lacking and crucial information is cleverly disguised. The most glaring omissions are

- (1) Only “actively participating distributors” are included, not those who are inactive or terminated due to lack of success. Such information is essential for a true picture of success.
- (2) Income figures carry the assumption that products are sold at retail, a highly questionable assumption, given the high prices of the products and stiff, low-cost competition from other sources
- (3) Cost of products, services, and training from the company are not subtracted from the average income figures.
- (4) Operating expenses for managing a promoting a distributorship, which can be substantial, are not included or even implied.

Few recruitment prospects are sophisticated enough to make a wise decision based on the data provided. Let's look at a few key observations:

1. Percentages of success are based on a base of 63,520 “actively participating distributors per month.” By not including the large pool of distributors who have not received commission checks or who have not purchased products, promotional materials or services, distributors who may have tried but failed (terminated) or who have become inactive are left out of the calculations. You don't get a true picture of the rate of success by eliminating the “failures”—those who signed up as distributors for NuSkin, but did not stay with it or became inactive. Who knows—if all who ever attempted the NuSkin program were included, the success rate could be as low as one in several hundred! But even using NuSkin's “actively participating distributors,” a success rate of one in 200 (or even 1 in 100) is not acceptable as a legitimate business opportunity by any reasonable standard.

2. The 1998 Actual Average Incomes report states: “This average annual income includes retail profit based on a 43% retail markup price. A survey of active distributors' retail sales from January-December 1998 revealed that an average of 55.7% of personal sales volume was sold at retail to end consumers.”

Anyone who has worked the NuSkin program knows that the retail prices are so high, that only in well-to-do neighborhoods could a distributor be consistently successful in selling products at the suggested retail price. For example, a couple with two teen-age children taking LifePack would have to pay over \$200 a month wholesale just for the nutritionals. If they buy other nutritionals and a few skin care products that figure could easily rise to twice that amount. And if you add 43% to that you could be up to \$572 a month—and the family hasn't even bought basic groceries yet!

Observations by those who have sold products within NuSkin's system (as well as other MLM companies) know that the vast majority of products are sold at wholesale, and most are bought more to meet minimum purchase requirements to qualify for commissions and bonuses than for actual need.

One would have to conclude that the above-mentioned survey is an in-house one and that respondents are telling what they should be doing, not what they are doing. It would seem that the assumptions in the report of sales at retail price greatly skew income figures upward, especially of lower level distributors, few of whom are likely to sell at retail prices.

3. NuSkin promoters boast that the company has a policy of very generous payout to distributors of “up to 58%” (or thereabouts—figures vary) of the revenues received in wholesale sales from the company. “up to”—there's the rub. Actually, based on NuSkin's 1998 reports (U.S. only), the actual payout was only 33.11% What explains the discrepancy? Firstly, few distributors (due to low volume) qualify for any commissions. Secondly, NuSkin's annual report states, “sales materials and starter kits don't count.” The latter can be a significant source of revenue for an MLM company like NuSkin.

4. It is revealing to extend the average payout and per cent of active distributors who are at the various income levels. We find that 102 Blue Diamond distributors get 52.64 % of the total payout to distributors. The other 47.36% is split among 63,418 distributors!

5. Jon Taylor tested the NuSkin system for one year, and he found that he and others had to work at least full-time to realize significant success. He found the recruiters' claims that “anyone can succeed at this business by just working one or two hours a day” to be completely false and misleading—especially the suggestion that becoming a Blue Diamond is realistic with some hard work, persistence, and patience. Also, to achieve this a distributor would have to convince hundreds if not thousands that NuSkin is a legitimate business opportunity. This Taylor could not do, so he quit the program.

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\*The work “naughty” is used in the title as an extension of the word “naught,” meaning nothing. As this analysis demonstrates, the NuSkin opportunity for new distributors amounts to next to nothing. Also, one meaning of naughty is “lacking in taste or propriety.” Implied is the issue of the propriety of NuSkin recruiters' reference to their opportunity as an “opportunity,” when the odds of success are so infinitesimally small.

\*\*Data for this report is drawn directly from reports supplied by NuSkin Enterprises, Inc. This includes the report on “1998 Actual Average Incomes,” which is made available to anyone by calling (801) 345-9599 or by requesting a hard copy from NuSkin's Distributor Relations Department at (801) 345-2000. The rest of NuSkin's data are from the published annual report for NuSkin Enterprises, Inc.

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6. NuSkin uses a breakaway compensation system that is highly leveraged; i.e., weighted towards the “back end” of the plan. The result is that extreme rewards go to Blue Diamond distributors, who must have 12 pyramid-shaped “executive organizations” directly beneath them. This qualifies them to collect overrides on 5 levels deep of pyramid-shaped “executive organizations”—all of which yields enormous “leveraged income” to the builder of this “mega-pyramid,” hailed by all participants as “Blue Diamonds.” As mentioned before, the result is that over 52 % of the money paid out by NuSkin to its 63,520 distributors goes to just over 100 Blue Diamonds!

7. If a Blue Diamond must have 12 executive distributors beneath them (each of whom must have a minimum of five qualifying distributors beneath them, each of whom have their own downlines), then the assumption that “anyone can do it” becomes highly questionable, if not absurd. Saturation of the entire world population would be reached very quickly. Saturation of the entire universe might be approached in about three levels, depending on one’s assumptions of how many millions of earths like ours exist and how many planets would allow NuSkin to sally forth:

*Level 1 Blue Diamonds:*

12 distributors on first level x 5 distributors under each = 60 distributors x estimated minimal average of 5 under each= 300 distributors. In actuality, Blue Diamonds have many times this number in their downlines, because not everyone is a “producer,” so at the very least—  $300+60= 360$ , the minimum number of distributors per Level 1 Blue Diamond distributor

*Level 2 Blue Diamonds:*

$360 \times 360$  distributors = 129,600 distributors  
 $129,60 + 360 = 129,960$ , the minimum number of distributors per Level 2 Blue Diamond distributor

*Level 3 Blue Diamonds:*

$129,600 \times 129,600$  distributors = 16,889,601,600 distributors  
 $16,889,601,600 + 129,600 = 16,889,731,560$ , or 16.8 billion, the minimum number of distributors per Level 3 Blue Diamond distributor—or 2.7 times the total number of persons on the planet, with a total population of 6.15 billion persons!

This, of course, may be no problem, depending on one’s assumption of how many worlds are in the galaxy and how many total earthlings and aliens sign up in his/her downline and remain active.

This kind of leverage goes far beyond the projections of any pyramid scheme I have ever seen, even the most blatant of illegal pyramid schemes. Of course, NuSkin may counter that it is not realistic that everyone could become a Blue Diamond, but at numerous opportunity meetings, Taylor witnessed speakers make statements to the effect that anyone who works hard enough can achieve Blue Diamond status. And an 80-year-old man can become an NBA star if he practices hard enough!

Taylor remembered numerous times witnessing a NuSkin promoter speak at NuSkin meetings of his success at recruiting a Blue Diamond, who then recruited another Blue Diamond, who also recruited a Blue Diamond, who in turn recruited a final Blue Diamond—and implied that if he could do it, anyone could. Does not this constitute misrepresentation of market or profit potential?

8. The figures on success rates are bad enough as is, but if one subtracts expenses that distributors incur, the odds become much worse. Taylor was obliged to purchase products to meet minimum distributor requirements for commissions and bonuses, to offer as

samples to prospects, and to” be a product of the products”—as the company and his upline recommended.

Taylor also found that success required significant operating expenses, such as printing and duplication of articles and sales materials; large telephone bills for continual recruiting; travel to meetings, conventions, and prospects’ homes; purchases of cassettes and other sales materials supplied by NuSkin, fees for NuSkin training meetings and conventions, postage and shipping of promotional materials to prospects, and supplies. The notion that this is a low cost business was found to be misleading, at least for those seeking success.

After exhausting his warm list of friends, relatives, and acquaintances, Taylor turned to advertising to obtain additional prospects. One year of expenses included:

NuSkin products	\$5,416.75
VIP services (by NuSkin)	102.21
NuSkin training, conferences	755.00
NuSkin Publications & tapes	459.98
Advertising	1,457.81
Supplies	586.30
Printing & duplication	418.99
Telephone services	3,496.15
Postage & shipping	329.85
Travel & mileage	5,277.12
Business use of home	(not included)
Miscellaneous	<u>216.76</u>
TOTAL EXPENSES	<u>\$18,516.92</u>

If one is working with more vulnerable populations, such as in the Orient, where perceived saturation is not as high as in the U.S., some expenses may not be so high. Person-to-person recruiting may be more effective. But even if advertising, business use of the home, and rental of meeting spaces (necessary for higher level distributors) are all eliminated, a minimum figure of \$15,000 total expenses for products and operating expenses seems reasonable.

While NuSkin may argue that if network marketing is done properly, little in the way of promotional expense is necessary, Taylor found that to be totally false. With a wall full of sales plaques, no one who knows Jon Taylor will say he cannot sell. Taylor says that NuSkin is a tough sell, as is any MLM in the U.S., where consumers have been bombarded by MLM propositions and are less gullible than in years past.

But even if one cuts in half the estimated expenses to \$7,500 per year—or even to nothing (the impression given in many opportunity meetings, where costs of doing business are not mentioned at all), the odds of success are such that one’s efforts will likely come to naught, and it would be misleading to suggest otherwise.

NuSkin Enterprises, Inc., has done a creditable job of convincing regulators and the public that NuSkin is a reputable business with high quality products. In all their literature and publicity they are careful to refer to themselves as a “direct sales” company, promoting quality skin care, nutritional, and web-based products and services. Reputable direct sales companies do not display these “naughty numbers.” Would it not be more appropriate to refer to NuSkin as a multi-level marketing program?

The company’s contributions to athletic, educational, environmental, and social causes is impressive. But does this largesse put NuSkin Enterprises, Inc., above the law? NuSkin’s Naughty Numbers calls the motivation for all this into question. Could it be that NuSkin is buying legitimacy so that consumers and regulators will merely wink at the numbers, when they should be wincing?