

WHAT IS A PYRAMID?

One of the biggest problems concerning us is what constitutes a pyramid? Each year many innocent people start companies that are illegal because the pay plan they use is an illegal pyramid. For the first time in print we are going to give verbal and graphic descriptions of the most common forms of pyramids. Over 50 years of experience in MLM compensation pay plans provide the basis for this definitive publication for the first time in MLM history.

The best contributing definition concerning Multi-Level Marketing comes from Webster's Dictionary. These definitions lay the ground work for understanding how an MLM works. Webster's definition comes in three parts:

1. More than two
2. Having many
3. Many times more than

Although this gives us a good start, one of our major problems is there is no concrete definition of a good MLM that separates it from a Pyramid. In general, we can say that customers who do not participate in the pay plan are the largest distinguishing factor of a good MLM. There are some exceptions that confuse rather than clear up our striving for a definition. In general we can say that if 50% of the people that purchase a product or service from an MLM are customers that would indicate a reasonably safe ratio in most cases.

Much of the fact is that good MLM's and Pyramids are constructed in the same manner. Organizations of both the good and bad are organized just like your local police force, general motors, or the U.S. Government. The new folks are at the bottom and leaders occupy the top of the pyramid.

If we do a time related longitudinal study of both a Good MLM and an MLM Pyramid one thing will become evident. The MLM ends up looking like a Diamond and well, the Pyramid ends up looking like a Pyramid!

Diagram one

Diagram 2

The reason for this is that the Good MLM diamond contains customers that choose not to participate in the pay plan. The number of participants that will join an MLM company is eventually limited over a period of time. Many factors go into this "limiting." Some products or services may become "dated" and not widely interesting. The company's pay plans may not evolve and change to keep up with newer more competitive plans. Some people will not want to join an older company since they will be a "small frog" in a "big pond."

The Pyramid in Diagram 2 always ends up like a Pyramid. One of two things happens. The first is that the law shuts down the Pyramid scheme. The bottom goes flat. The

other is that the number of fools willing to join in a pyramid scheme are limited and it collapses from the bottom up.

Pyramid Things of Little or No Value

Some examples of past pyramids would leave a sane person rolling on the floor laughing. Past examples of Pyramid offering are: one offered a disposable camera and a plastic umbrella for \$295 or discount books for \$300. Becoming more common on the Internet is to offer a bundle of software. The trouble is that the software is free on many "free ware" Internet sites. Once again since there are no products of value, there are no customers. The only people that buy the products are ones joining to make money. There are no customers because there is nothing worth buying.

In this scene a perfectly good compensation plan becomes a Pyramid because the products are services are worthless. The pay outs are high and this attracts people.

Solid pyramid shape Y. Black distributors and customers
Shown separately whiteY

Diagram 12

Things Lacking Value = Training = Pyramid

If training doesn't have an established market value it is a big red flag. Tony Robbins gets \$5000 for teaching some of his courses. This is an established non-MLM price. Only customers buy and use the product. At this point in time if Tony Robbins wanted to MLM his course he probably wouldn't have any legal problems.

EXAMPLE:

Company X offers a training course at \$1500 in a 2 day meeting. The Regulators first question is - is the training sold else where and at what price? The second question is Do customer buy in it who don't participate in the comp plan? Regulator = Fed Trand Com, FDA, FBI, State Attorney Generals, District Attorney.

A double red flag is training concerning offshore banking.

Diagram 5

DOUBLE RED FLAG

Pure Pyramids - No Products = Airplane Games & Gifting Clubs

Pre pure money start with one person

Diagram 13

Imagine a room

Diagram 14

Each person coming into the room pays \$1000 to sit in a chair.

This is where the term "head hunting" come from in an Illegal pyramid scheme. The organizers of the pyramid scheme had to go out and find "heads" to fill the chairs.

Inventory "Front End Loading" = Pyramid

This type of Pyramiding is attacked by Federal and State Laws. It is determined generally by the amount of money that is required to join an MLM program. Specific laws are to be found in both Pyramid statutes and business opportunity laws.

Inventory loading occurs when a company requires distributors to buy a large amount of product to be able to collect down line commissions. These "requirements" are promoted in a number of ways that may seem fairly logical while a novice is in a state of "excitement." Here are some of the ways it is done:

1. A large initial purchase to gain a discount from retail pricing. The more product that is bought the cheaper the price gets down to wholesale. In general 23 states have some sort of law that limit initial purchases to \$600 or less.

2. The logic behind this follows common logic to most of us because it is common knowledge the larger quantity you buy the cheaper products become! However these folks don't know that many good MLM companies sell competing products wholesale in a quantity of one.

3. The "lure" that usually "sells" the new recruit is a title. They come in a variety of names but they all give the privilege of "jumping rank" and progressing rapidly without work. Some of the names seen would be a joke if it weren't for the money lost. Here are

some examples:

In the 50's and early 60's this type of program made some sense. Shipping costs were high (UPS did not exist) so you had to move large quantities to be cost effective. Distributors were taught that a garage was a warehouse. The problem is that this very effective means of distribution was used to sell large amounts of products to unqualified persons. There were no return policies so a person who bought a massive amount could not get any money back.

Products Vs. Opportunity

A legal plan would require sales of the product not the purchase for future sales.

Diagram 7

A plan that would violate both pyramid law and business opportunity law would look like the

Diagram 8

What is a Pyramid?

Most people and even experienced MLMers don't know what a pyramid looks and feels like.

1. Worse yet some innocent people start MLM Companies that use an illegal pyramid pay plan.
2. On the other hand, there are criminals that use pyramid pay plans to line their pockets. The pyramid collapse and the crooks are gone.
3. In between are under capitalize companies that start up using a pyramid plan with the strategic intent to change it later. Why this strategy? Because "with luck" they may get growth in a competitive market. They are gambling they will not get "hit/shut down" by regulators until they get bigger.

Binary

Once again to be legal commissions get paid on an activity which has already occurred. That activity should include "customers" who do not participate in the pay plan.

The binary front end loss

A "normal" binary plan will use 3 "business" centers. This allows for discounting and extra sales commission on profit pool. A normal binary plan might look like this

Diagram 9

Binary Pyramid offers to leverage the income by the distributor buy more websites

Diagram 10

This obvious increase is almost pyramidal in structure. Since the amount jumped from \$300 to \$700 this plan also violates business opportunity law.

Single Line Downline Pyramid

It seems ridiculous but a single line pay plan is a pyramid scheme. The same as an airplane game. The "disguise" is that it the "chairs" are an in a straight line.

Diagram 2

Comp Plan Book Curve

Diagram 4

Start Up Survival Medium Growth Momentum Plateau Decline

Survival Phase - People get excited about ground floor

Growth - People attracted by growth

Momentum - The Buzz- Excitement from growth

Plateau - Still have great opportunity

Decline - still good time

The advantages to distribution of each

