Multi-Level Marketing and Mormonism

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May 15, 2003

http://mccue.cc/bob/spirituality.htm

Introduction

It is well known that Utah – and hence the Mormon community – has one of the highest per capital concentrations on Earth of multi-level marketing organizations. The purpose of this essay is to outline how MLMs work, and to suggest certain parallels between this form of business organization and Mormonism that might explain its popularity with Mormons.

How Do MLMs Work?

I once had the pleasure of analyzing an MLM for a client. It was International Heritage Incorporated. One of its leading proponents up here said that IHI "really" stands for "I Have Insomnia" because its "opportunity" was "so exciting".

These organizations as economic models are fascinating. IHI presented itself as buying club. Through it, one could purchase high end stuff like Lalique, Rolex etc. at a small wholesale mark-up, with the massive retail mark-up to be shared by the "down-line". IHI's legal documentation stayed onside the Ponzi scheme rules (See http://www.sec.gov/answers/ponzi.htm for background as to where the term "Ponzi scheme" comes from) that apply in most jurisdictions. Those rules prohibit MLMs from operating on the basis of charging an admission fee for the right to sell memberships. That prevents the purest form of Ponzi - where I pay $1 to get in, which gives me the right to charge other people $1 each to get in, which eventually makes money for everyone but the last round of suckers to get on board. Nothing of economic value is created. That is what makes these things so distasteful - the group at the end of the line (by far the largest group because MLMs work by exponential expansion) all lose money while those ahead of them in line get theirs back, or make between a bit and a lot, and nothing useful is done. Money is just shuffled around on false pretences, and usually, those who have the money get the experience and those who have the experience get the money. But since the losses are usually not that large per person, the victims usually slink off without saying anything while the scam artists set up their next gig. That is why Ponzi schemes attracted specific legislation - similar to many types of securities fraud - there is usually not enough involved for any one victim to find it worth his while to pursue the bad guys. Hence, the state needs to step in to prevent the bad buys from multiplying like rabbits without natural predators.

The way the MLM folk get around the Ponzi rules is by having each participant buy something – a gold coin, soap, etc. – it doesn't matter. If they buy something, and overpay a bit for it, the Ponzi rules are avoided and yet there is some "juice" in the system to make it work. The more difficult to price the article is, the easier it is to overpay for it without getting caught. Hence, we have Amway and its patented soap that you are only supposed to use in small amounts, etc. But, when you do the math regarding what is coming in by way of product sales and "membership fees", and what is going out the door in terms of costs and payout to the "up-line", I have not yet seen a
case that did not rely on an exponentially increasing membership paying ever larger membership fees to support the projected future payouts. That is the mark of a Ponzi scheme masquerading as an MLM.

Sometimes MLMs are (or pretend to be when they collapse) just particularly poorly thought out marketing mechanisms. If there is a commodity out there that everyone needs anyway, why not buy it from your buddies and share the profits those greedy retailers and manufacturers keep for themselves? That idea makes superficial sense, but when you examine the logistics of transporting goods, storing them, dealing with warranty claims, etc. it is very difficult to do what the greedy business people do for even close what it costs them per item to do it. The business models in use in our society are pretty efficient, and profit margins are no where near as high as one might think. So, it is difficult to run an MLM on the basis that it is a more efficient mousetrap. But if you could do that, you would be creating value and we should all help you do it. This concept presents an often useful excuse when the MLM goes belly up - "We gave it the good old college try, and it did not work because ... (explain what should have been obvious from the get-go, and add in a bit of bad management on the part of guys you have fired, and away you go). "Sorry we took your money and got rich. Come play with us earlier in our next venture and you WILL become rich like us."

Why Do MLMs Work? - The "Misdirection Cue"

So, how can an MLM make money? People ordinarily don't like overpaying for the stuff they buy. Remember the Buddhist notion that the two things that cause most human problems are fear and desire? Well, here comes Mr. Desire.

MLMs mix up two things – a product purchase decision respecting something you may or may not need, and getting rich. And the allure of getting rich is used to make many people decide to buy a bunch of stuff they don't need at an inflated price.

This is a lot like a typical magician's misdirection cue – what the magician does to make you look stage left while he produces a rabbit stage right. In the MLM case, your focus on all those millions you are going to make selling soap and Corn Flakes to your friends make the price you pay for your soap and Corn Flakes irrelevant. Only a small minded person would so much as pay attention to details like that. Let's talk about the Galactic Platinum Diamond trip to Mars next Spring!

Once the hook is set nice and deep, the newly converted and about to become wealthy MLM salesperson heads off to persuade her friends to follow her example, and bears testimony to all the wonderful benefits (usually none of them yet experienced) that will flow from this particular MLM.

The "cream" on top of the "real" value of the good or service sold through the MLM is what makes the Ponzi (oops - I meant MLM) work. It is, in effect, the $1 dollar fee paid for the right to collect more $1 fees. This is a fraudulent enterprise because it does not create value. It entices people on the basis of the greed most humans feel to try to get something in exchange for creating nothing, unless you count false expectations designed to manipulate behaviour as something.

In my view, the typical MLM is much worse than just skimming a bit of cash from a bunch of strangers the way Mr. Ponzi did. His scheme involved simply using the money
taken in from one investor in what was supposed to be a currency trading scheme, to pay the return promised to earlier investors. As he paid out spectacular returns to his initial investors, the money began to flood in from others who wanted him to manage their money too. In 1921, during one three hour period, he took in over $1,000,000. Since he was paying out far more than it was possible to earn, he required an ever expanding inflow of new investment funds to maintain the façade. And, of course, he eventually disappeared with a lot of other people's money. It appears that he never purchased more than $30 of the investments he was supposed to be trading. But, the dream he sold was passive as far as his "investors" were concerned. Ponzi did not involve other people in the creation and perpetuation of what for most would be an impossible dream, thus wasting years of their lives and spoiling many otherwise bright prospects. He just took some money. The taking of years of time and creation of soul crushing false expectations is, in my view, much worse. The eventual collision with reality this sets up is painful, often causes depression, etc.

Hey, isn't Utah at the top of the charts re depression (or at least the use of anti-depressants)? And don't depressed people tend to be involved in spousal abuse incidents more than others, and isn't Utah at the top of the spousal abuse charts too? Hmmm.

The MLM people I have from time to time known (all of them in the Mormon community, by the way) avoid "negativity" in the same way Mormons avoid real Mormon history. Negativity refers to the irritating habit real business people have of poking gaping holes in the MLM business model – you know, pointing out things like how many people live on the planet – stuff like that.

My Daughter and a Financial Services MLM (FSMLM)

One of my daughters was recently recruited to become part of the sales force of an FSMLM. She has no financial expertise, and FSMLM sells insurance and financial planning. However, my daughter does have a bunch of family and friends who want to help her out, and term life insurance and certain kinds of mutual funds are "no brainers", right? So, she should be able to get a few people to switch their stuff over to her, and make a little commission on that. And, she will probably buy a lot of their product and encourage those who love her the most to buy a lot of product, because it is now "her business". But is she going to be able to become a real financial planner or insurance agent? Well, she could because she is certainly bright enough to do that, but would have to get quite a bit of education, sales training etc. And in the FSMLM system, she will make a lot more money getting people into the program under her who will pick up their family and friends' accounts as she did than she will by doing real financial planning. So, is she better off spending her time working to become a real financial planner, or mastering the art of selling a dream?

The FSMLM system is clearly set up to motivate selling the dream instead of learning to be a real financial planner. And it captures market share on the basis of personal relationships and the near impossible dream of getting rich instead of on the basis of the quality or pricing of their product or the expertise of their sales force. For the insurance company, this is fine or better than fine. A policy is a policy is a policy. And, they have set their business model up so that most sales are based on trust and personal relationships so their pricing probably does not have to be as sharp as other companies that operate in the gloves off, fully competitive marketplace. And, look for the extra
cream they skim off the top to be hidden in hard to understand management fees and things of that kind that only well trained professionals would likely spot. So, this deal probably works our really well for the people who own FSMLM.

The puritans among you might say, "Hey!!! A big organization doing well because its has persuaded a large group of people to work their asses off on false pretences, and in most cases for free, essentially! That is not fair! There ought to be a law against that!"

In fact there are laws against this that unfortunately do not apply to religion - that ubiquitous sale of the ultimate form of insurance. However, FSMLM and others who do similar things have well drawn contacts that require their sales people to acknowledge all the right things, and if the story is told differently than the contract says it should be, that is because there is the odd "rogue" in the group who will be punished. And, I suspect that FSMLMs do get sued occasionally, but they make enough money to handle that and likely quietly settle claims to keep the ship steady.

So, if I need financial planning advice, where am I better off going – to someone who is not very good at financial planning but who is really good at stirring up my emotions with respect to how I might get rich if I follow her example, or to a real financial planner? If I want financial planning instead of dreams, I had best go to those with the proven expertise to deliver the product I want in the competitive marketplace.

But, FSMLMs do not stop at the sale of uncompetitive "financial commodities" and the creation of false dreams that ruin the lives of many of their sales force. Because the sales force does not know what they are doing with their "no brainer" financial products, they sometimes venture into areas that require brains. I can't say that this is a formal FSMLM program (I doubt it is - it is that bad), but I know people who have followed the advice of the FSMLM folks and mortgaged their homes to buy mutual funds. This is a one of those no brainers. The mortgage only costs 5% a year, and mutual funds produce 10% -15% (we'll say 10% because we're "conservative"). Any idiot can see that this will work great! It is so easy that everyone should be doing it, but most people are not aware of this financial magic so aren't you lucky to have found FSMLM! And, if the markets go down (as they sometimes do – we are professionals after all and notice these things), they ALWAYS come back up. So, if the market goes down, you do the smart thing – you "average down" (buy more mutual funds at the lower price) and wait for the inevitable market recovery. That happened just last year, as it always does, and "My clients made tons of money!" This was part of what my daughter was told during the FSMLM presentation that was made to her.

These people are not fraudulent for the most part. They are just ignorant, and are teaching things they are not qualified to teach – kind of like Mormon missionaries. And they are kept ignorant for the same reason. A well trained sales force would not be able to say the things these guys do with a straight face.

I will spare you the "chat" my daughter and I had about the relationship between risk and return, how long term financial markets work, and why those who only have access to short term and/or distorted versions of financial history are flying blind and often get shot down or crash into mountain sides. The parallels between how FSMLMs (or other MLMs) and the Mormon Church work in this regard are extensive.
The most entertaining MLM I have ever seen is one that was an MLM that sold MLM training programs for people who wanted to become more efficient at working the MLMs they were already in. This was one of the most elegant bathwater drinking exercises I have ever seen; a thing of beauty.

Other MLM Characteristics

There are a few basic MLM laws that seem to apply. First, since there are only so many people on Earth (one of those regrettable little details that gets in the way of many an ultimate MLM success – kind of like how gravity is such an irritating brake on the human dream of unaided flight), it is only possible to sell so many bars of soap or weight loss programs, etc. So, only so many people can become millionaires selling soap, weight loss programs etc. When you do the math on the exponential expansion of any MLM, using their projections to show how YOU are going to get rich, it is surprising how quickly you get to the point at which every person on the planet is in somebody's down line. It is safe to assume that well before that happens, the MLM will run out of gas and the last sheep in line will be sheared.

Second, the more money the MLM promises to make for each person involved, the more quickly it will reach the point at which in order to continue to be "successful" it will have to find another planet populated by organisms who want its product. This is because spectacular payouts to the up-line require that more of the "membership fee" be distributed instead of put into growing the business and trying to produce something of value. Rapid growth is the only way to keep this thing going, and so you hit the market's ceiling more quickly. IHI was at the get rich quick end of the scale. The currently touted in Mormon circles "Monarch Health Sciences" seems similar. Watch for a meteoric rise, and then either the "bait and switch" described below, or financial burial.

What Happened to IHI?

I should at this point finish off my point re IHI. After doing my analysis, I sat down with a couple friends – both LDS – who were involved. One was a former Mormon Bishop, as was I at the time. I explained to them how this was a bad deal – one of the aggressive MLMs that would likely rise quickly and then explode - and that a lot of the people they were bringing in or who indirectly relied upon their reputations ("Bro. X, who is a respected business buy and former bishop is involved – this can't be a scam!") would lose their money. I worked through some of the stuff noted above for them. They thanked me for my advice, and both continued to participate. They had made a significant amount of money from IHI at that point, and made more.

Less than a year later, I read about the bankruptcy of IHI in the newspaper. I suspect that the people in my friends' down lines were far enough removed from them that my friends did not suffer too much relationship damage. Stealing from strangers is much easier than stealing from friends or family.

So, why did my friends not see the writing that was so obviously on the wall? I suggest that the same forces of cognitive dissonance (See "Religious Faith: Enlightening or Blinding?", page 40 and following, at http://mccue.cc/bob/postmormon.htm) that make Mormons (and particularly Mormon leaders) unable to see the reality of Mormon history are at play here. My friends had huge reputation and (they thought) financial stakes in IHI. To admit that it was little more than a fraud and that they had been taken in by it
would threaten their egos because if they had been so wrong about that, what else might
they be wrong about? The human mind is not set up to deal well with that kind of
uncertainty. So, their minds simply screened all of the troubling information for them.

There is no question in my view as to why MLMs work so well with Mormons. They use
the same emotion based epistemology (method of "knowing") as Mormonism. If it
makes me feel good, it must be "true". The MLM guys know how to dress and present
themselves authoritatively. It helps if you have a university degree or two as well. But
the key is to deliver the emotional goods. The use of testimonials works beautifully,
which I note is illegal in some US states regarding financial planning precisely because
of the distorting effect it has on decision making. Information is selectively presented.
We hear about the single Mom who became a millionaire through Monarch Health
Science, for example, but not of the many who simply wasted time and money.

The first people into a successful MLM make a lot of money. By focussing the
testimonials on that, and not presenting the rest of the data relevant to the MLM
movement as a whole that can be used to predict where this one is headed and what
MY chances are of making money, a false but very persuasive picture is created.
Hmmmmm. Who else that I know who does that? It is on the tip of my tongue …

**The Perfect MLM**

So, if I was going to set up an MLM to try to get as rich as I possible could, what would I
do?

First, I would make the product as easy to physically distribute as possible. You don't
want the hassle of dealing with lots of warehousing, trucking, etc. The pros are really
good at that, and it is hard to compete with them. It is therefore best to concentrate on
products that have a high intellectual property content, such as training programs; weight
loss programs; online gambling; etc., and so can be distributed to the extent possible
over the Internet. One of the "best" I have seen is an on-line gambling MLM. Done
100% over the internet; it hits the greed button hard and is easy to market – one of my
buddies who is already wealthy sends out recruiting messages (mostly testimonials sent
to him by people in his up-line) by email during spare moments during his working day
as a medical professional. It might be illegal, but don't worry (or even talk about) that.
The money will offshore before the regulators in North America get wise to this, and then
only the sales force will get hammered. That is the beauty of running an offshore
business – the law in North America hardly matters, unless you are part of the sales
force. Oh yeah, that is the point of view from which we are looking at MLMs – that of the
sale force that lives in North America. Again, the sheep are being set up to be sheared
and institutional interests trump the interests of the individuals who have been
persuaded on the basis of outlandish, unrealistic promises to serve the institution.

Second, maximize the fear and desire component of what you are selling. Concerns
regarding aging, appearance, health, etc. work well in this regard. This makes the
product less price sensitive and the perceived results easier to manipulate. If you can
make people feel good about themselves (see Dr. Martin Seligman's psychology of
happiness at [www.authentichappiness.com](http://www.authentichappiness.com) for ideas as to how this can be done), they
are likely to associate that happiness with whatever you are selling. Kind of like certain
forms of religious belief.
Third, don't be greedy. Those at the front end will make more in the long term if the game is played indefinitely. Make big promises up front to get the folks in the door so that you get to critical mass as quickly as possible, but then cite changing market conditions or something to slow the thing down, otherwise it will collapse under its own refuse. It will work best for those at the front end if as many of the rest as possible participate on a part time basis to supplement their income from other sources.

Fourth, keep moving the shells. Each time you bring in a new product line, there are more items for your by then massive down-line to buy. As long as they keep buying, and bringing more people in to also buy, you keep making money. So, each new product line is a bit like a new, mini-MLM within an MLM. Amway started with soap. What does it sell now? It would be easier to list the things it does not sell. Nuclear warheads (I hope), and a few other things would be on that short list.

Fifth, don't try to make people into real sales people, but make them think they are real salespeople. Get them to milk their personal relationships, and teach them how to persuade others to do the same. Many of the most effective sales organizations of this type use the home presentation model – give someone a small present and some attention in exchange for getting their stamp of approval on you in front of their friends. Sort of like member missionary work. Levine in "The Power of Persuasion" has a nice chapter in which he goes through how this works.

Conclusion

It is my view that MLMs are a form of mind virus that plays on a combination of greed, fear and ignorance. Hence, they are dangerous and should be avoided.

I think I understand MLMs as well as anyone I have met. And yet when my buddy sent me a series of messages some months ago about the on-line gambling MLM noted above, I was tempted. It looked like easy money, and I thought it likely was near enough to its beginnings when I was contacted that I could have made a nice chunk of cash on it before it collapsed. And so my greedy nature tugged for a moment or two toward giving it serious consideration. We are all susceptible to these emotions. However, it did not take long for things to come back into focus. Whether I could make money on the MLM in question was irrelevant. My reputation and the manner in which I treat other people is far more important to me than money. I sent my friend a brief email indicating that I do not "do" MLMs for some of the reasons noted above, and suggested that he take a closer look at what he was doing. I only had to respond to about four more of his emails in similar fashion before I was deleted from what was obviously a group list that he has put together for the purpose of building his down-line. We are still friends but do not talk about MLMs.

And for similar reasons, neither do we talk about Mormonism.