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A Brief History of MLM

Direct selling, where merchants or sales people go door-to-door selling goods, is a business model that has been around for hundreds of years.

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Part 1. The Beginning of MLM.

Direct selling, where merchants or sales people go door-to-door selling goods, is a business model that has been around for hundreds of years. You can go back through history and read about the Silk Road, the extensive interconnected network of trade routes across the Asian continent connecting East, South and Western Asia with the Mediterranean world and Europe or read about the adventures of the famous Venetian merchant Marco Polo to China in 1269.

Learn about the Spice trade between Europe and the Far East and how Arab traders ply their trade by camel caravans. In the North American history, direct selling can be traced back to the 1600s. For example, the Voyageurs established fur trading routes and posts on behalf of the Hudson Bay Company and of the Yankee Peddler, in which peddlers would travel in their cart home to home throughout the countryside, selling their wares.

In direct selling, goods are produced by entrepreneurs and are sold by them directly or through sales organizations made up of individual sales people.

Around 1860, from direct selling, using a sales force of salaried and/or commissioned sales people, came another new idea: A business model where manufacturers sell their products to individual business owners or IBO (in Amway language) or distributors who are their own boss. And, instead of sales people being paid a salary and/or commission, these distributors or IBO are owners of their own business, who buy at wholesale and sell their products for a retail profit, and are sometimes also paid a commission on their sales. Today, some of these companies became worldwide known corporations. Here are a few you may recognize:

a. 1868 - J.R. Watkins founded the J.R. Watkins Medical Company, one of America's first natural-remedies companies where associates marketed directly to consumers.

b. 1869 - Henry Heinz, a former peddler, created an organization of 400 sales representatives to sell various vegetable products, like ketchup and pickles.

c. 1888 - Asa Candler, another former peddler, built a sales force to sell Coca-Cola syrup to restaurants after buying the formula from pharmacist John Pemberton for $2,300.

d. 1906 - David McConnell started the California Perfume Company, based out of New York. He had 10,000 sales representatives selling 117 different products. The California Perfume Company changed its name to Avon Products in 1937.

e. 1906 - Alfred C. Fuller, another former peddler, started the Fuller Brush Company with a USD75 investment in Hartford, Connecticut.

f. 1931 - Frank Stanley, a former Vice President of Sales for Fuller Brush Company, founded Stanley Home Products selling high quality household cleaners, brushes, and mops.

The Real MLM companies.

1945 - Nutrilite, a company started by Carl Rehnborg in 1939 selling food supplements, gave the exclusive American national distributorship rights of Nutrilite products to its two main distributors: Lee S. Mytinger and William S. Casselberry -- a former cemetery-plot salesman and a psychologist. Mytinger and Casselberry came up with another idea that

revolutionized direct marketing and are considered the Founders of Multi-Level Marketing or Network Marketing as we know today.

> **A marketing model where we have a marketing plan that allows IBOs or distributors both to sell products to make a retail income and at the same time to recruit and train new IBOs or distributors under them to make a wholesale income from the sales of the people they recruited and trained.**

The Nutrilite Marketing Plan by Mytinger and Casselberry.

1. Individual business owners (IBO) or distributors join Nutrilite and buy products at USD13 wholesale price and sell them for USD20, thus making a retail profit of USD7 or 53.84%.

2. When a distributor sells to 20 customers, an extra monthly bonus or rebate of 25% is paid on the total wholesale value.

20 customers x $13.00 = $260 x 25% =$65.00

For those of you who are familiar with the Amway stair steps marketing plan, you may want to notice that Nutrilite is a one-step plan of 25%, whereas in Amway, it is a multi-stair steps plan starting from 3% to 21% monthly bonus or rebate. (Amway made 2 major changes in the Nutrilite plan and these two changes are the main instruments that propelled it to become the biggest MLM Company it is today. This is the first.)

3. Here is where you should note where the MLM plan starts: Once a distributor proved that he could get 25 customers, he was allowed to become a Direct Distributor or DD in Amway language. As a DD, he can now recruit other people who wanted to sell the Nutrilite products. They would buy their products from him and not directly from Nutrilite. (Being familiar with the Amway Marketing Plan, which is an extension of the Nutrilite plan, I believe a Nutrilite distributor must have 25 customers for 3

consecutive months to become a DD before the distributor is allowed to recruit others.) Once he and his distributors amassed 150 customers, he receives an additional 2% of the total sales volume or a 2% DD bonus.

You may also want to note that in the Nutrilite plan, only DDs can recruit others whereas the Amway plan allows all distributors who have signed up to recruit others. (This is the second major change Amway made.)

1949 - Rich DeVos and Jay Van Andel (high school buddies and business partners) returned from military service and became distributors for Nutrilite. They were extremely successful and built a sales organization with over 2,000 distributors. But, in the late 1950s, a problem arose: the manufacturing arm of Nutrilite and the marketing arm of Nutrilite owned by Mytinger and Casselberry had a disagreement over the sharing of the pie. This standoff badly affected the business of all distributors and, of course, the business of Rich and Jay.

1956 - Dr. Forrest Shaklee developed a method of extracting minerals from vegetables and used MLM (Network Marketing) to distribute his products.

1959 - Rich DeVos and Jay Van Andel left Nutrilite and started Amway, from the basement of their home, marketing biodegradable detergent products and other household cleaning products. The success of Amway was spectacular and by 1965, in a short period of 6 years sales grew to USD10 million. Remember: this is USD10 million when the price of 1 ounce of gold was USD36.

As a Networker who has great interest in studying marketing plans, I have always considered these 3 companies, Nutrilite, Shaklee and Amway as the Real MLM Companies where the business is a channel to sell goods and services. A business where distributors are rewarded either at retail or wholesale based on the volume of products that they sell or wholesale.

Part 2. The Counterfeits.

The spectacular success of Amway soon attracted attention of many business people. It did not take very long for some bad business people to realize that many distributors can easily be exploited because they are lazy, greedy and would like to gain benefits for no work.

When MLM is done on proper and strict ethical rules of conduct, it is hard and slow as it takes time to build a sales force. As we like to teach in our training, we are planting apple seeds and it takes time for the seeds to grow to become apple trees to produce apples.

Based on the Ponzi Scheme of the late 1920s and the chain letter scam (The chain letter craze swept the U.S. after World War I. This scam promised great profit if you would send a dime or a dollar to the person at the bottom), these people came up with a counterfeit version.

These crooks turned MLM, which is a channel to sell goods and services into an investment game. Do not be surprised if you see companies like these selling products at ridiculous prices and distributors buy them because it is an investment to buy a distributorship to scam others. Companies like these do not last long and their only customers are distributors or customers who can buy at great discount because distributors try and get rid of their unwanted stock because of game playing. Do not be surprised if these companies do have very good products, as good products are easy to source.

These Counterfeits purposely write loopholes in the marketing plans making them easy so that distributors can do the business with money and not hard work.

The following are the clauses in their plans to attract inexperienced distributors into their schemes:

1. Low minimum requirement to move up to the leadership level.
2. One month move up to the leadership level.
3. No reversion.
4. No pass up.

To help you understand the marketing plans of the Counterfeits, I may have to show you Amway's marketing plan.

1. In the Amway plan, you have to do 10,000PV or USD10,000 (if 1 PV = USD1) to hit 21% leadership level or the highest step in the program. The Counterfeits reduced this to say USD2,000. In other words you only need to do USD2,000 to become 21%. Can you imagine the excitement and brainwashing we can now do to these lazy people telling them that Amway is too hard.

2. In Amway, for you to become a Direct Distributor, you have to do 21% or 10,000PV for 6 months, three months must be consecutive and the other three need not be.

The Counterfeits allows you to become a Direct Distributor if you do 21% or USD2,000 only once in any one month.

3. In Amway, the stair steps is 0% to 21% and you revert to 0% every month and as a result it is impossible to use your money to buy up to any position. You are forced to build a solid organization and this is hard work. In the marketing plans of the Counterfeits, when you do 21% or USD2,000 once, you stay at that level forever.

4. No pass up. In other words, when a distributor under you becomes a 21% or DD you also automatically become a 21% or DD. This leads to finding investors and staking.

Let me explain:
All you need to do is to find 4 investors, A,B,C and D and everyone only needs to come up with USD500 x 4 =USD2,000 and all products are bought at D who in turn will push up C, B, A and you to become a 21% or DD.

With the above clauses, you can see how easy it is to fleece inexperienced and lazy distributors who will take out their credit cards and become a 21% in a few minutes or the amount of time for the credit card charge to be approved. It's only USD2,000 and you only need to do it once and everyone ends up with a DD pin but no organization (and of course the owners of these companies laugh all the way to the bank). Many of them made millions and a few become billionaires. These people have made MLM the circus it is today. Thus was born the Pyramid Selling Scheme.

It is ironic that the FTC or Fair Trade Commission brought lawsuits against the best and reputable MLM Company, Amway, in 1975 but nothing has been done to the Counterfeits who are the real pyramid schemes today.

It is not difficult for the FTC to effectively legislate the anti-pyramid law to stop the Counterfeits and game playing: Make the loopholes they write in their marketing plans illegal.

I guarantee that if the FTC dares to pull out these four teeth, the monster will die and will reincarnate into a proper MLM company that will be good for all:

1. The minimum requirement to move up to the leadership level must be at least USD5,000.
2. One month move up to the leadership level is not allowed. The minimum must be at least 3 consecutive months.
3. No reversion is not allowed.
4. No pass up is not allowed.

At this time, I would like to ask for your help to get a message to any Congressman or Congresswoman or anyone working in the FTC. They must write the four clauses above in a new anti-pyramid law.

Part 3. The Forced Matrix or Japanese Style Marketing Plans.

Most MLM companies use some kind of matrix-based compensation plan. Broadly speaking, this refers to a system where you personally sign up distributors who are your first generation and they sign up distributors who become your second generation, who in turn sign up distributors who become your third generation and so forth.

A forced matrix, as the name suggests, is a marketing plan where all distributors are limited by the number of distributors they can sign up as their first generation. In my 30 years in this industry, I have come across the 5-lines Forced Matrix to the 4-lines Forced Matrix (Quadruple Matrix) to the 3-lines Forced Matrix (Triple Matrix) to today's 2-lines Forced

Matrix (Binary)

The Forced Matrix plan is a very bad marketing plan and all those who are serious in making MLM a vehicle to your dreams should avoid it like the plague.

Just like the Counterfeiters, they sell the idea that it is easy and distributors can make money for little or no effort. Again, these are sweet music to the ears for the bunch of lazy distributors. They know doing proper MLM, where it is a channel to sell goods and services, is hard and using money and getting others to invest and play games is easier. But is Forced Matrix an easy marketing plan? I don't think so especially if the bonuses is paid out weekly. If it is made easy by lowering the requirement, then the weekly bonuses received will be but petty cash.

It may be good to note here that with the flush-out clause, Forced Matrix only pays one level in leadership bonus and that is why the company and uplines encourage new distributors to buy up 3, 7, 15, 31 or more business centers or legs when they join. They will tell you how you can now maximize your bonuses so that you can get a 2nd or 3rd or 4th generation leadership bonuses. If this is not game playing or pyramid scheme, what is it? It is time for the FTC of the United States of America and all Governments to outlaw this kind of marketing plan.

I have written an essay named, *BINARY ! OH MY GOODNESS ! IS THIS THE MARKETING PLAN YOU WANT?* If you are interested in learning more about marketing plan, here is the link to get your free PDF copy. The purpose of this essay is only to touch on the history of MLM.
http://eddychai.com/downloads.html

The good news is Forced Matrix system will eventually collapse in all the countries they have opened. As a result, we hardly see any company using the Quadruple Matrix and Triple Matrix anymore, and many Binary companies are telling people they have changed their marketing plans and that distributors will be paid even if they have one line or can now sponsor more than 2 first generation distributors. The only reason why some of these bad Forced Matrices have been around for quite a few years is because there are over 190 countries in the world for them to move around. Check out how they are doing in a country where they have opened 10 years ago. Do not be surprised if you cannot find them.

Conclusion.

Since 1945, when Nutrilite introduced MLM to the world, up to today

2010, 65 years hence… what have I seen? Well, what I saw was Amway, a real MLM company even though the bonus paid out is poor, had a worldwide sales of USD8.4 billion for 2009. Now go into the Internet and check the pathetic sales of the Counterfeiters and the sales of the Forced Matrix companies. They talk about how good their marketing plans are compared to Amway. How much more they pay in terms of percentages (and this is true), how many more levels deep they pay (and this is true too), and their talk about their MLM revolution and their rhetoric for the last 40 years about how they are going to be a 5-billion dollar company within a few years, and, before we can blink our eyes, they will be the biggest company in the world.

Well… how come Amway's sale is so far ahead from all these companies? The answer is simple.

> **Unless a company is a real MLM company structured as a channel to sell goods and services, it will never be big and in most cases will close down eventually.**

When a company is a pyramid scheme with the purpose to play the money game, it will never be big like Amway. The company can pay a very much higher bonus percentage-wise than Amway and pay many generations deeper but it will never be big.

The time is now ripe for good Real MLM companies to start and save this whole industry that has been turned into a circus these past few decades. For the last 30 years, I have told my audience that in my eyes, there is only one Real MLM company I recognize and this company is the biggest in the world today called Amway. The rest are all pyramid schemes. All other MLM companies are where playing games has been rampant, where distributors end up with products they cannot sell and where distributors have lost their savings. If you are not a pyramid scheme, then what are you?

I hope good entrepreneurs and people with money will take up this challenge as you need pretty deep pockets to establish a Real MLM company. MLM is a very important business for many people who have no money or opportunity. It has been 50 years when a Real MLM

company was last started and the time has come to start a 2nd Amway.

I would like to ask all distributors who are interested in MLM: after reading my essay and knowing the catastrophic destiny of bad companies, are you still going to join pyramid schemes?

> **If you decide that the time has come for you to do MLM properly, let me warn you, a Real MLM company that is a channel to sell goods and services needs time and effort. Stay focused, work hard and enjoy the journey.**

MATTHEW 14:25,28-32 NKJ
25 Now in the fourth watch of the night Jesus went to them, walking on the sea.
28 And Peter answered Him and said, "Lord, if it is You, command me to come to You on the water."
29 So He said, "Come." And when Peter had come down out of the boat, he walked on the water to go to Jesus.
30 But when he saw that the wind was boisterous, he was afraid; and beginning to sink he cried out, saying, "Lord, save me!"
31 And immediately Jesus stretched out His hand and caught him, and said to him, "O you of little faith, why did you doubt?"
32 And when they got into the boat, the wind ceased.

Peter asked THE LORD to command him to come on the water but started to sink because he lost his focus due to the boisterous wind. Stay focused, my friends, stay focused.

God Bless,

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