

I have three decades of experience as an independent representative in the network marketing industry, also known as multilevel marketing (MLM). I found it very challenging to dig through the FTC's proposed regulations document for problems and proposed remedies that I could provide helpful comment on. I will try to keep my comments organized and reasonably brief for each issue.

BIG PICTURE GOAL Trying to minimize the regulatory overhead for businesses is admirable. One way to do that is to determine which **KEY** factors can best prevent fraud and deception. Then focus on those, and keep compliance requirements simple and affordable.

SCAMS, DECEPTION, AND FRAUD It's far too common that unethical promoters milk an unethical "business", then close it down when the unethical nature of the business becomes too obvious to potential new independent representative. Then they simply modify things a bit, come up with a new company name, go set up shop elsewhere and resume the pattern of deception and fraud. Requiring prior litigation reporting to potential new customers/associates for up to two decades is a good way to stop that pattern. Also the proposal to have a broad definition of "actions" (e.g. law suits and arbitration) is a great tool. The **RESULTS** of such actions should also be a part of the reporting.

REPORTING HOW THE PARTY ENDED In the MLM industry, independent representatives have a continuing relationship with the company. They are free to terminate that relationship any time that they feel they are not being treated fairly. So long as the independent representative feels he is being treated fairly, he is likely to stay in the relationship. So what percentage of people leave, and when they leave are key revealing indicators. I suggest a simple reporting requirement that should be easy for a company to compile. The simplest way to illustrate my proposed report is with an example. Let's say a company has been in business for 15 years. For those representatives who joined your program in: 1996 what percentage are still active? What percentage were terminated by the company? 1997 what percentage are still active? What percentage were terminated by the company? 1998 what percentage are still active? What percentage were terminated by the company? and so on through 2004 what percentage are still active? What percentage were terminated by the company? 2005 what percentage are still active? What percentage were terminated by the company? The reason for going back ten years is because some company policies and company "gotcha's" don't become apparent until an independent representative has been working the business for quite a few years. Another thing that happens is that after a number of years a company will decide to change the ground rules in a way that suddenly turns the opportunity into a bad deal for the independent representative. Quarters of the year are Jan-Mar, Apr-Jun, Jul-Sep, and Oct-Dec. For those people who joined your program two quarters ago, what percentage are still active? This is intended to catch nasty frauds before they've had a chance to hurt too many people. Definition of "Still active". An independent representative is still active if he has made a purchase from the company or sponsored a new independent representative for the company in the last 90 days.

INDEPENDENT REPRESENTATIVE SWEAT EQUITY One thing that I've seen in MLM over the decades is very sad and unethical. A company will advertise, "Own your own business". But then if the company decides to terminate the independent representative after he's built up a huge sales volume with his organization, the company does not let him sell this equity he has created. If the company can take away his business in a heartbeat, then obviously it was never his business in the first place. In my opinion it is **NOT** ethical for a company to suddenly confiscate the accumulated "sweat equity" of

years or even a decade of work. A MAJOR appeal of MLM is the opportunity to create a residual income. REACTIONS TO PROPOSALS Seven-Day Waiting Period Bad idea. Too much compliance cost. Stay with letter the consumer get a refund. Ethical companies will have a reasonable "get your money back" period. Making references available In the age of the Internet and search engines this is redundant. People can go online and ask, "Who's had good or bad experience with XYZ company?" Here's another reason references are a bad idea. Too many people are lazy or are looking for something for nothing. So if they join a company with such an attitude, what does that prove about the company? Answer: nothing. In MLM you get out of it in proportion to the work you put into it. Also, my suggestion for independent representative attrition reports is a much better, far more comprehensive indicator of satisfaction with the company. Rich Putman