# Amway (Quixtar)

Amway is the largest multi-level marketing (MLM) organization in the world. It is a multi-billion dollar a year company based on the sale of products as varied as soap, water purifiers, vitamins, and cosmetics. Amway proponents are fond of asserting that their products are of the highest quality, their company is very large (several million distributors and several billion dollars in annual sales), and does business with such giants as Coca-Cola and MCI.

In Amway, one is recruited as an "independent" distributor of Amway products by buying a couple of hundred dollars worth of the products from the one who recruits you, known as your "upline." Every distributor in turn tries to recruit more distributors. Income is generated by sales of products by the distributor plus "bonuses" from sales of his or her recruits and their recruit-descendents.

Here is a description from an Amway distributor as to how it works.

It goes like this:

> *If I buy $200 of stuff from Amway this month, I'll get a 3% bonus check (3% of $200 = $6). If I share the opportunity with nine others, and we each buy $200 of stuff from Amway this month, they each were responsible for $200 and will get $6, but I'm responsible for $2000, moving me to the 12% level. I get $240. However, I'm responsible for paying the bonuses of the people right below me - $54 - so I keep $186. I make more because I did more, I found nine people who wanted to buy at a discount and get a bonus for doing it. After I reach the 25% bonus level there are other bonuses that kick in, but they're all based on the volume of product flow, not on signing people up or having lots of people (Bob Queenan, personal correspondence).*

Amway defenders take offense at describing this method of sales and recruitment as akin to a pyramid or chain letter scheme. It is true that MLM as practiced by Amway is not an illegal pyramid scheme. Amway has been taken to court for being an illegal pyramid and the courts have ruled that since Amway does not charge people either for joining Amway or for the privilege of recruiting others as distributors, it is not an illegal pyramid. Illegal pyramids and chain letters have no product. Amway has lots of household products: from laundry detergent to vitamins, from cosmetics to water filters. Amway is a legal pyramid scheme.

# 1 The legal pyramid

There are several distinct aspects of MLM schemes that justify calling them legal pyramid schemes. One is the aspect of the chain or line of distributors whose income depends primarily not on their own sales of Amway products but on sales made by others whom they've recruited. The actual practice gets fairly complicated. Here is how Bob Queenan, cited above, describes it:

Now we get into the actual mechanisms. While my product volume is low, it makes sense to combine my order with other orders to reduce the paperwork that Amway has to deal with. So the way I order from Amway is to call my "upline" and place my order. My upline combines my order with others and calls Amway directly. Amway would normally ship direct to the upline, and we'd all go over and pick up our products. In my actual case, I live too far away from my upline to make that practical, so I order through my upline, but get direct shipments from Amway.

> **Do I sell to other distributors?** No, we all buy direct from Amway.
> **Do other distributors order their products through me?** Yes, I combine the orders and send them to Amway.
> **Do I get money from my distributors?** Yes, for the products they buy. I write a combined check to Amway.
> **Do I profit if my distributors buy more?** Yes, I do -- so do they, but yes, I do.
> **Is my bonus from their money?** It's from the bonus pot, which is filled with money saved by not paying middlemen.

Am I missing something here? Haven't the distributors become their own middlemen? Aren't the distributors selling to each other? Isn't income mainly generated by recruiting new members to the organization? Isn't Amway Corporation the big winner in this scheme?

An Amway customer is not just buying a detergent, but is recruited into being a minister of a faith with a complicated bookkeeping scheme. Why not just go to your local store and buy soap, you ask? Because the agent is someone you know, or who knows someone you know, who's invited you over for coffee to tell you about a great opportunity. Odds are good that you'll either buy something out of politeness or a genuine need for soap or vitamins, etc. Perhaps you will become an agent yourself. Either way, the agent (distributor) who sold you the soap or vitamins makes money. If you become an agent (distributor) then part of every sale you make goes to your recruiter. The new recruit is drawn into the system not primarily by the attractiveness of selling Amway products door to door, but by the opportunity to sell Amway itself to others who, hopefully, will do the same. The products seem secondary to the process of recruitment. Yet, the distributors will learn to talk about little else than the product and its "quality." What justifies MLM schemes is the high quality of their products. What entices the recruit, however, is likely to be the attractiveness of making money from others' sales, not the products themselves.

# 2 Do the numbers add up?

According to Amway, their annual sales amounts to about $7 billion and there are 3 million distributors. Thus, the average distributor's sales amounts to about $2,333/yr. If 30% of that is profit, the average distributor makes $700/yr. Klebniov claims that the average income is $780, but the average distributor buys $1,068 worth of Amway goods himself and also has expenses such as telephone bills, gas, motivational meetings, publicity material and other expenses to expand the business. "The average active distributor sells only 19% of his products to non-Amway affiliated consumers," according to Klebniov. "The rest is either personally consumed or sold to other distributors." **In the United States, the Federal Trade Commission requires Amway to label its products with the message that 54% of Amway recruits make nothing and the rest earn on average $65 a month. No such labels are required in other countries, but the facts are clear. Most people who get involved in Amway will not make money**.

Far from boosting their incomes, the vast majority of those who become Amway distributors, particularly those in 'the system', are likely to end up losing money.

The majority of the wealth of the tiny number of top-ranked distributors in this country comes not just from the sale of Amway products but from selling motivational materials and organizing seminars and rallies for the people below them (Thompson).

> *Amway has made a very few people very rich while paying its foot soldiers more in inspiration than in cash (Thompson).*

There is nothing particularly unique about this in the history of business. What is unique is the faith, devotion and hope that the foot soldiers have.

# 3 Is Amway a cult?

Critics of Amway have compared it to a cult whose main product is Amway itself. Amway folk do resemble religious devotees in some respects. They have great faith in their company, its products, and the hope for wealth and early retirement. They attend seminars and meetings that are reminiscent of revivalist meetings, where the power of positive thinking replaces (or is accompanied by) faith in Jesus. Instead of a parade of souls healed by faith, Amway faithful are treated to testimonials of early retirement with plenty of money. While there have been some accusations of persecution of those who have left the flock, by and large Amway devotion seems harmless enough.

> *Amway doesn't seem to differ much from other zealous big corporations which preach positive thinking about the business of business in endless motivation seminars and retreats, books, tapes, brochures, among other things (Klebniov).*

Graham Baldwin of the United Kingdom compares an Amway motivational meeting to a revival or cult meeting. The former University chaplain tries to help people break away from religious cults with his program called "Catalyst." Soon after one of his broadcasts, he got a call from a man who explained how the group he had joined a year earlier was slowly taking over his life. There were the huge monthly meetings at venues like Wembley Conference Centre where he and thousands of other followers were worked into a passionate frenzy then told to go out and find as many new recruits as possible; there was a powerful doctrine that frowned on television, newspapers and other 'negative' influences; there was the strict dress code and advice on how to bring up children and relate to loved ones; there was the fear that to quit would mean giving up hope of a happy future.

However, having seen the television show featuring Baldwin, the man now alleged that he was being subjected to mind control techniques and being manipulated by those above him. He wanted advice on making a possible break. Baldwin asked which cult the man was in.

> *"It's not a cult. It's not a religion. It's something called Amway" (Thompson).*

To some of Amway's critics, Amway may look like a religious cult, but to others it just looks like a shell game. The ministers of the faith work their magic by constantly calling your attention to the quality of their products, their concern with ethics, the wealth of their company, their association with Coca-Cola or MCI, the claim that they don't have to pay the middleman or advertising costs, and the numerous testimonials of the faithful who have passed through the valley of death and have arrived on the mountaintop with buckets of gold. Meanwhile, you do not notice that the products are secondary to the process of recruiting new distributors of those products. You do not notice that the wealth and associations of the company are irrelevant to its promises of wealth to the millions of distributors recruited. You do not notice that many costs, such as mailing, handling, doing forms, advertising, and driving personal vehicles to deliver or pick up products, are picked up by the distributors themselves. You do not

notice that even though some people make a decent or more than decent living exclusively through Amway, the chances of all or most distributors making such wealth are absurdly small. You do not notice that while the leaders talk about ethics they are stimulating resentment and greed. And of course you never hear the testimonials of those who feel cheated by Amway; dissidents are not allowed to give their testimony at revival meetings.

The shell game gets even more complicated because when it is pointed out that most people who are Amway distributors either lose money (they buy more products from Amway than they sell) or make a very modest income, the ministers of the faith don't respond honestly and directly by saying that that is what should be expected from such a system. Instead they claim that no one said you would get rich quick at Amway, no one promised great wealth with little work. Those who fail do so because they are failures. They don't work hard enough. They don't devote enough time to their distributorship and recruitment. The failures need motivation!

# 4 The dissidents

Paul Klebniov writes that former distributors and Amway officials say that like many movements based on a cult of personality, Amway's attitude toward any insider critical of the organization has bordered on paranoia. Edward Engel was Amway's chief financial officer until 1979; he resigned over a disagreement with DeVos and Van Andel [the founding fathers of Amway] on how to run the Canadian operations. This apparently branded him a traitor; he says he and his family received threats for years after his resignation.

> *"It was a Big Brother organization," says Engel today. "Everyone assumed that the phones were tapped, and that Amway had something on everybody."*

In 1983 Engel's former secretary, Dorothy Edgar, was helping the Canadians in their investigation of the company. She was roughed up in Chicago, after she was told to "stay away from Amway." Engel, who picked her up after the incident, says he believes her story. Amway would not comment on the incident.

There was extremely bad publicity in 1982 when a former distributor, Philip Kerns, quit to write a damaging expose called "Fake it Till You Make It." Kerns charges that Amway used private detectives to follow him and rough him up. Kerns' expose prompted the "Phil Donahue Show" and "60 Minutes" to run uncomplimentary pieces on Amway. Amway's recruitment dropped off; with it, sales plunged an estimated 30% in the early 1980s.

In 1984, another former Amway insider, Donald Gregory, says he started to write a book on Amway, but the company obtained a gag order against Gregory in a Grand Rapids court (Klebniov).

Even so, the vast majority of Amway distributors are probably decent people who believe in the quality and value of Amway products and who are in it to make money in a legal and ethical way. They are not responsible for what the founders or "uplines" do. They are not making wild promises about making millions of dollars with just a

few hours of work a week to their friends. The average Amway distributor is undoubtedly not like James Vagyi.

## 5 Amway comes to Hungary

Now that capitalism has come to many former communist nations in Europe, Amway has spread its ever-replicating roots into countries such as Hungary and Poland. James Vagyi, the lead recruiter in Hungary, tells potential recruits that the minimum income is about $9,000 a month [700,000 forints]. Mr. Vagyi says to a group of potential recruits, "If 10 million people were persuaded for 40 years to build socialism in Hungary, you can each find six people to do this." If those six find six who find six who find six, you will be rich in no time. Mr. Vagyi shows his audience a videotape that ends with a message from Amway's co-founder, Richard DeVos: "Ethics and caring for people are the fundamentals of Amway's business." Maybe. But apparently some distributors have cynical views of ethics and the only people they seem to really care for are themselves. Still, isn't this true in every business? Aren't there always a few bad apples who give the whole group a bad reputation?

## 6 Is the appeal to greed or to need?

It isn't very likely that the majority of Amway's distributors follow Vagyi's example. Nor do they follow the example of Michael Aspel who used a curious recruitment video in London. The video "features couples who live in enormous detached houses and have luxury cars, talking about how much freedom and independence the Amway opportunity has given them. The narrative tells how the company is built on "ethics and integrity" and how it has helped "thousands improve the quality of their lives" (Thompson).

Furthermore, there is no doubt most Amway meetings are not like the one described by Paul Klebniov:

> *One weekend this summer over 12,000 enthusiastic people gathered for a rally in Richmond, Va. A handful were wealthy distributors of Amway Corp's products; the rest wanted to be. The meeting began with a prayer and a Pledge of Allegiance. On stage, Bill Britt, the master Amway distributor who organized the rally, introduced the other top distributors, who had arrived in their Cadillacs and Mercedes, flaunting expensive furs and jewelry. With the introduction of each of these role models, the crowd cheered.*

Stories such as Klebniov's inevitably lead to the question, Does Amway encourage fraud? The answer is No. However, one of the main criticisms made of Amway and other MLM organizations, is that they inevitably encourage unscrupulous people to defraud the gullible into thinking that with a little hard work they can become rich beyond their wildest dreams. These unscrupulous people become rich themselves, not by selling Amway products but by selling the concept of Amway and "inspirational materials" such as books, tapes, seminars, etc., aimed at motivating a person to think positively. Critics argue that while it is possible to make a decent living selling

Amway products, a realistic person should not expect more than a supplement to one's income from selling the products. The real money is in recruiting people into Amway. The really big money is in selling motivational materials, i.e., hope.