

## Business Overhead Costs

*"..and since you don't have any overhead.. "* Ron Puryear Triple Diamond  
Tape: "Basics of the Business." RP681

*"..but, you will not find that everyone you sponsor in this business has a large cash flow that they can just invest in this business."* Diamond Distributors-  
Kenny and Donna Stewart - Tape: "Develop a Plan of Action" DBR677A

**There may be significant business expenses, mostly discretionary, that may be greater in relation to income in the first years of operation.**

Amway-Quixtar Achieve Magazine November 2000 page 5  
There are business overhead costs involved in an Am/Quix Independent Business. These costs are rarely spelled out during the presentation of the 2-5 year plan. Sometimes the prospect may be told about a "system" that makes the AmQuix business vehicle run, and this system is often portrayed as simply following a proven franchise model; like a McDonalds. Plugging in to these Amway/Quixtar Motivational Organizations (AQMOs) is never mandatory though most new recruits will be told that no one has succeeded without them. The recruit may be challenged whether they are "serious" about their business or not. Being "serious" implies becoming part of this system though, again, the full cost is rarely discussed.

*"Of course, once I signed up, my upline threw all the expenses, tapes, seminars, etc onto my back, as well as the guilt trip about buying my own products."* IBO Site Visitor - college student  
*"When you first get involved in this business.. it kind of costs you money".*  
Executive Diamond-Louie Carrillo Tape- DBR1151

This system provides functions (evening and weekend), tapes, books, brochures, CDs, ISPs, videos, Amvox and other prospecting and motivational Business Support Materials (BSMs) to help the IBO recruit others to the business. Often the cost for these tools can reach between \$1000 and \$4000 (US\$) for a first year IBO. These costs may or may not include travel, accommodations, cell phone costs, business attire, gas and other vehicle costs, business cards, catalogues for customers and prospects, makeup presentation cases and refills, info kits, info kit refills, renewal fees, pricing guides, trying new products to get to know them, paper work refills (for those groups still using standard fulfillment), Retail Sales Contracts, SA4400s, Artistry gift bags and Artistry and SA8 samples, red pens and yellow paper and of course babysitting. As the IBO becomes more involved and their business grows, costs increase and, depending on purchases, business overhead costs may exceed Amway/Quixtar bonuses below the 7500 PV level. Often the issue for many IBOs is not whether these costs exist, but that the full price of the business is not clearly represented during the presentation of the 2-5 year plan. They new recruit may feel somewhat "duped" when the full cost comes to light and may question how "independent" they are as "independent business owners". Although these costs are quite low compared to traditional business they are not low

when compared to the bonus level of the majority of IBOs and most IBOs will find themselves dipping well into their own pockets to fund their venture.

*"So we as independent distributors can make up to 70% in our business...of the retail dollar...with no overhead...with tax benefits...."* Ron Puryear Triple Diamond tape: Basics of the business

*"..and since you don't have any overhead...and you're really not doing the retail end for the retail sake, you're doing it because you gotta do it. That is what makes Amway legal.. is because we are willing to service 10 customers. Plus we need the seed money to build our businesses with....So, uh, you can afford, since you don't have any overhead, to give them a free gift every 90 days"* Ron Puryear Triple Diamond Tape: "Basics of the Business." RP681  
*"and we have no overhead, because we have a home based business where we have tax benefits instead of overhead"* Ron Puryear Triple Diamond Video: "Nuts and Bolts." RP-17V

*"When you first get involved in this business.. it kind of costs you money".*  
Executive Diamond-Louie Carrillo Tape- DBR1151

Amway Co-founder Rich DeVos speaks on the system costs.

So who is telling the truth about business expenses?

## 1 All the details about Business Overhead Costs.

Business overhead costs are rarely if ever mentioned or shown in the AmQuix Sales and Marketing Plan. The AQMOs sell Business Support Materials (BSM's-tools-tapes, books, functions) to help teach about, motivate and build the business. These optional but necessary "system educational" costs alone will cost a distributor between \$1,000 and \$3,800/year.

*"It's like the educational process in this business. I probably run my business on two thousand dollars per year, by the time I pay for tapes books, gas, pay major training organizations."* Emerald Distributor - Jonathan Ritzen Tape: "Seminar" RP-886

Travel to out of town groups can cost you thousands more.

*"My accountant tells me it cost me \$3,000 to run my business per year."*

*"Again, it costs a LOT of money to run any business, especially Amway/Quixtar."*

*"When we could not afford to go to one of "The functions," our Emerald upline suggested we "hock our wedding rings" because we would not succeed if we did not go to this \$700 function."*

*We finally closed out the 401K when one of them casually mentioned during a meeting that serious people would do such a thing because after all, the business was all the security anyone could ever need in their golden years. We bought it. Talk about feeling stupid! IBO Site Visitors*

Expenses also tend to rise the higher one gets in the organization:

*"at our peak, we made about \$100,000 CDN in income, about \$20,000 of that was Amway bonus money, the balance tapes, books, functions, rallies, etc. Of that we had reinvest about \$70,000 to keep the momentum going, which left*

*us with about \$40,000 to live on. Fortunately, some excellent creative accounting from our accountants helped us to pay very low taxes on this, so we basically had an extra 60 hour a week "part time" business that really didn't work the way it was envisioned."* Former Emerald Distributor - Site Visitor

True, the absolute cost of AmQuix overhead for a new IBO is very low, compared to other businesses. However, as a percentage of each distributor's sales it is probably the highest of any business I've ever researched. IBO overhead costs could actually exceed an IBO's personal sales volume. The typical overhead costs add up to much more than the \$750/year in gross profit a 100PV/month distributor's purchases bring to the group. The top bonus is 25% of BV.  $100PV \times 12 \text{ months} \times 2BV/PV \times 25\% = \$600$  in bonuses/year/distributor. When all bonuses are included it amounts to about \$750 per IBO.

*"Over 10 million dollars will be made this year and kept in people's pockets in our business..."* Double Diamond-Greg Duncan-tape: "EDC Attitude" RP419

On the same tape Mr. Duncan also said his organization consisted of over 15,000 distributors. Based upon these data, his organization generated about \$666 per IBO in gross profits. Once the average overhead cost in that organization exceeds \$666 per IBO, they will be spending more to promote Amway products they receive from Amway. In general, IBOs will not breakeven on average until personal sales (BV) exceed expense dollars by three to four times.. Personal sales is defined as personal consumption plus sales of inactive, non-building personally sponsored IBOs plus member/client purchases. It is likely that the average IBO does not even exceed 65 PV/month of sales. Active IBOs will generally have higher personal volume than the inactive IBOs.

The chart above shows the expenses and income of a distributorship relative to the product manufacturing cost. This example uses 65PV as the average volume per IBO. Quixtar statistics state that 41% of IBOs are active (1 out of every 2.4 IBOs). This means there is an average personal volume of 158 PV for an "active" IBO. Personal volume is defined as that volume moved to personally sponsored, inactive IBOs, clients, members and retail customers. The chart shows how an IBO, who participates in the motivational system, will spend more than the total bonuses generated on the 158PV in personal sales of his distributorship. The charts show that only with added margin from retailing, would this "franchising model" breakeven on average. The expenses for Wal-Mart are also shown to highlight what they spend to move an equivalent amount of merchandise. The only way to breakeven with the AQMO franchising model and no retail sales is to recruit members and clients or more add money-losing IBOs under you. With this pyramided franchising model of "buy from your own store", there will always be more people losing money than making money.

*"But the non-Amway items count for a lot. Says Don Gregory, Van Andel's former speechwriter, "Recruits are brainwashed into spending a fortune on peripherals while consuming Amway products. They either lose their shirts or begin making money by getting enough people underneath to do the same."* Forbes March 25, 1985

It is said in the plan you will make a \$66-\$81/month profit from the very beginning. At the 3% bonus level, all but \$6/month of this "profit" is from the supposed 30% savings on your personal purchases. Using common sense, it is easy to see why the majority of distributors will lose money when they are taught a business model where the targeted franchise sales cannot generate enough gross profit to cover the franchise's basic overhead expenses. Each new incremental building distributor brings more expenses to the game, than his personal purchases and personally sponsored inactive distributors generate in gross profit for the group. This situation is called a "negative sum game". Many profitable distributors who have written me have very wide down lines. They also say to not focus on people who have no money to spend.

*"...I understand the numbers. The key is to register people who already do well (have money). And pay out 15 to 20 checks." Profitable distributor*

The typical pyramiding mentality is to recruit more money losing, building distributors rather than stress more sales per distributor.

**The Average Monthly Gross Income for an "Active" IBO was \$88**

From -The Independent Business Ownership Plan - Quixtar Corp.  
Most AQMO systems for active distributors cost more than \$88/month, and this does not even include travel costs for prospecting and training. Common sense tells me that people are spending more on average to run their businesses than they earn on average. This will be a bias for people to cut their losses and quit, especially if they do not truly value the products.

*"On this issue of this being a helping business...I helped three people hit 2500 PV, and others hit 1000, 1500, etc. Our structure was very nice, and we held on to it for a couple of years. Our bonus cheques were good- that motivated our downline. Wanna know how I helped those people? I helped at least three good friends lose from \$6,000 to \$8,000 for three years consecutively, and they did it willingly." WEB Bulletin Board*

|