

Fortune Hi-Tech Marketing

A mathematical analysis

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1 Motivation

Having been previously unaware of multilevel marketing (MLM), I was shown a Fortune Hi-Tech Marketing (FTHM) business presentation. The presentation piqued my interest for several reasons:

- FHTM seemed to allow individuals the prospect of fantastic wealth and I was somewhat surprised that I had never heard of it or the broader class of MLM previously
- I was unsure about the business model and wanted to attempt a mathematical understanding of it
- I desired to know if it was a moral method for earning money

Upon conducting some preliminary research, I was surprised to find the top of MLMs and FHTM extremely polar; in other words, detractors seemed positive of the immoral nature of MLMs while proponents swore that detractors did not correctly understand these types of businesses, that MLMs saved them financially, and even that detractors consisted, at least in part, of failed MLM participants.

This initial observation prompted me to dig deeper. I wanted to know the truth, not only for myself, but for others who would encounter FHTM in the future. In the forum environments of back and forth accusations, what stood out was how easy it was for *either* side to sling claims backed by no supporting evidence other than personal conviction. I am convinced that the ease with which individuals are [self] deceived translates to evidence and facts being the only consistent and reliable method of coming to the truth.

It is for this reason that I present my findings and analysis. It is my hope that writing this document will serve to benefit those who come across it. Decisions that oppose the conclusions of this paper will surely be made by those who read it. However, at the very least these decisions will be *intentional and informed* rather than influenced purely by emotional gravitation and visions of unrealistic potential outcomes.

2 Method

2.1 References

References are a requirement for any analysis. They form the starting point for any analysis and will, therefore, heavily influence the conclusions drawn. In aligning myself with the goal of a fact-based analysis, I have chosen, to the best of my ability, unbiased sources of hard facts for analysis.

2.1.1 FHTM Business Presentations

My primary source for all mathematical analysis will be official FHTM presentations themselves, which can be found at The Reel FHTM.¹ As of March 2010, there were six presentations featured. I viewed all five presentations in English; I did not view the presentation in Spanish by Alexis Adame. Unfortunately, in the course of writing this report these presentations have been replaced with others which I was unable to view. One or the original five seems to be available on YouTube.²

2.1.2 Currently available affiliate program statistics

FHTM sells products through an MLM business structure and provides commissions to its representatives based on sale quantities. In order to compare FHTM commissions paid with the rates provided directly by the represented companies themselves, I sought currently available affiliate commission rates from company websites.

2.1.3 Opinions of government and private organizations

In opinions expressed in various internet discussions like RipoffReport and Topix, writers on both sides make generalizations and express opinions without having facts and evidence to support those statements.^{3 4} Toward the end of the report I present the opinions of the Better Business Bureau and two state government agencies. While these opinions are not objectively true by virtue of their source, they do present statements formed after research and investigation, requiring at least some form of review and subjection to public analysis/rebuttal. While opinions stated in internet forums are subject to individual responses, those made by the groups I mentioned are a far higher standard of reference, for false accusations, invalid conclusions and the like could very well result in legal action. I find it reasonable to conclude that the statements of these groups rest on more than hunches and emotions.

¹Fortune Hi-Tech Marketing (2010). *The Reel FHTM*. Retrieved 31 March 2010 from www.thereelfhtm.com.

²Originally viewable from The Reel FHTM. *fhtm presentation part 1*. Retrieved 31 July 2010 from <http://www.youtube.com/watch?v=UnY-8FgTe6k>.

³Ripoff Report (2010). *Report: Fortune Hi-Tech Marketing*. Retrieved 31 March 2010 from <http://www.ripoffreport.com/multi-level-marketing/fortune-hi-tech-mark/fortune-hi-tech-marketing-stay-cfb46.htm>.

⁴Topix LLC (2010). *FHTM - Fortune Hi Tech Marketing*. Retrieved 31 March 2010 from <http://www.topix.com/forum/city/west-plains-mo/THH0BSR2OASJ3IGRA>.

2.2 Analysis

My analysis will be consist of the following procedure:

- Present qualitative facts regarding the financial aspects of FHTM
 - Summarize the commission, joining fee, and bonus structure provided in official FHTM presentations
 - Identify current affiliate program commissions
 - Identify current website domain fees in an effort to understand potential profits resulting from the monthly website fees
- Conduct a mathematical analysis based on the facts above
 - Establish net loss/gain for the various income/expense categories
 - Examine the larger picture revealed by these figures

3 Qualitative figures

3.1 Presentation Analysis

3.1.1 General format

The presentations by the five English speaking presenters at The Reel FHTM use the same overall discussion format and slideshows to guide the presentation. The general format of each is as follows:

- Introduction and personal story background
- Introduction to FHTM: who founded it, what does it do, etc.
- How does the business work?
 - Acquiring “customer points” (sales)
 - Gathering other “business partners” (recruiting)
- What income is generated?
 - Customer Generated Usage (CGU): sales commissions earned from one’s own sales as well as those occurring down-line
 - Customer Acquisition Bonus (CAB): a bonus paid for each recruit in one’s immediate down-line (one level removed) who generates three customer points
- “Real-life” example of the FHTM business model to demonstrate potential earnings

3.1.2 Extraction of values

The following will present the financial values as taken directly from the FHTM business presentations. These will form the basis for a mathematical analysis

To join FHTM as a “Manager” (representative), one must commit to three payments:

- A first-time buy-in fee of \$299
- An annaul renewal fee of \$199 each year
- A website maintenance fee of \$20/month
 - The website serves as a “portal” through which all sales are made; the website is a way to track personal sales and handle all of the sign-ups and payments of one’s customers

Income is accumulated through two primary avenues:

- Income from Customer Generated Usage (CGU)
 - Earn 0.25% of CGU from those levels 1-7 below
 - Earn 5% of CGU from those on level 8 below
 - CGU commissions are earned on customer points, essentially sales of products to others, for example:
 - One’s own services count toward one’s own customer points
 - * The website serves as 1 self-generated customer point
 - * A family cell phone plan counts as 2 customer points
- Customer Aquisition Bonus (CAB)
 - Earn \$100 for each manager recruited to one’s immediate down-line who acquires 3 customer points within 60 days

The “real life” example presented is as follows

- Each manager gathers three additional managers, forming a pyramid of a total of 9 levels (1 at the top, 6,561 at the bottom)
- Each member of the pyramid gathers 10 customer points (sales) of \$25/each

3.2 Currently available figures

3.2.1 Sales commissions

I found several commission figures for businesses represented by FHTM to illustrate the potential funds which can be earned as a direct affiliate (no middle man) with these companies. Based on the appendix of the Montana Insurance and Securities report referenced below, it seems that FHTM primarily serves as a conglomerate of affiliate programs rather than having any type of special relationship with goods and service providers. As a result, FHTM is requiring buy-ins, renewals, and website fees in order to access commissions which are otherwise obtainable for free.

Current commission rates found are as follows:

- **T-Mobile:** \$75 per plan sold ⁵
 - Lowest cost 2-year contracts are \$59/mo, yielding a commission of $\$75/(\$59*24) = 5.30\%$
- **AT&T In-Store Sales:** earn \$1200 per month on top of base salary of \$9.72-10.60/hr ⁶
 - While specific commissions are impossible to extract from this job posting, it is worth noting that a company is paying an individual \$10/hr (\$20k/yr) and \$1200/mo (\$14k/yr) to serve as an in-store sales representative
- **Let's Talk:** \$45 per plan sold ⁷
 - Entry plans range from \$39-\$59/mo, yielding a commission of $\$45/(\$59*24) - \$45/(\$39*24) = 3.18-4.81\%$
- **TMI Wireless:** \$50 per plan sold ⁸
 - \$39-\$59 entry level plans yield a commission of 3.53-5.34%
 - Possible to earn 40% increased commission if higher volumes are attained
- **Saveology (Dish Network):** \$120-150 per sale ⁹
 - Dish plans range from \$24-84/mo yielding a commission rate of 5.95-20.8%

⁵T-Mobile USA, Inc (2010). *Publisher Sign Up*. Retrieved 31 March 2010 from https://signup.cj.com/member/brandedPublisherSignUp.do?air_refmerchantid=1579083.

⁶AT&T (2010). *ATT Part Time Retail Sales Consultant Collinsville IL*. Retrieved 31 March 2010 from <http://connect.att.jobs/illinois/part-time-sales/att-part-time-retail-sales-consultant-collinsville-il-jobs>.

⁷Let's Talk.com Inc (2010). *Become a Let's Talk Affiliate*. Retrieved 31 March 2010 from <http://www.letstalk.com/company/affiliate/affiliate.htm>.

⁸TMI Wireless, Inc. (2010). *tmiWireless.com Affiliate Program - Compensation Plan*. Retrieved 31 March 2010 from <http://www.tmiwireless.com/affiliate/compplan.asp>.

⁹Saveology.com (2010). *Dish Network Affiliate Program*. Retrieved 31 March 2010 from <http://network.saveology.com/satellite-affiliates.aspx>.

- **AFreeDish (Dish Network):** up to \$180 per sale ¹⁰
 - Yields a commission rate of 8.9-26.0%
- **World Choice Travel (Travelocity):** the site lists many various commission areas, earning anywhere between 2.5%-30% ¹¹
 - This network may be a ‘nested’ commission (commission collected from WC Travel’s commission from Travelocity), which makes it difficult to establish true rates
 - Through further research, it turns out that World Choice Travel is exactly how FHTM is generating income from Travelocity ¹²
- **Magazines.com:** 35% on all sales ¹³
- **Peter Lamas Beauty:** 20% on all sales ¹⁴
- Many more affiliate programs may be found at Howard Wagler’s online list ¹⁵

3.2.2 Website Fees

Since FHTM is charging \$20/month for personal website maintenance, I thought it would be interesting to find currently available figures for website costs. Per current rates, web hosting seems to be available for approximately \$4-8.¹⁶ This is the cost required for another company to host a website, perform server maintenance, conduct backups, etc. Given this, it is reasonable to assume that with large enough volumes, these same services are less expensive if done in-house.

I have encountered several allusions to “templates” which can be purchased for FHTM websites in order to activate or allow certain additional types of sales, such as expanding sales to allow for individuals to buy plane tickets to Travelocity through one’s personal web page. It seems that these templates require a fee, but lacking any official figure I will leave these out of my analysis.

¹⁰National Satellite Systems (2010). *Dish Network Affiliate Offer*. Retrieved 31 March 2010 from <http://www.afreedish.com/dish-network-join-us.html>.

¹¹World Choice Travel (2010). *World Choice Travel Partner Program*. Retrieved 31 March 2010 from <http://www.worldchoicetravel.com/corp/compensation.html>.

¹²Office of the State Auditor, State of Montana (2010). *Temporary Cease and Desist Order and Opportunity for Hearing* (SEC-2010-12), 29. http://www.sao.mt.gov/legal/securities/S10_HITECH%20Cease%20and%20Desist.pdf.

¹³Magazines.com (2009). *Sales Affiliate Information*. Retrieved 31 March 2010 from <http://www.magazines.com/affiliate/index>.

¹⁴Lamas, Inc. (2007). *Lamas Beauty Affiliate Program Information*. Retrieved 31 March 2010 from <http://www.lamasbeauty.com/affiliate/>.

¹⁵HowardWagler.com (2010). *Fortune High Tech Marketing (FHTM) Analysis of Product and Business Model*. Retrieved 31 March 2010 from <http://www.howardwagler.com/2010.article.fortune-high-tech-marketing-fhtm-analysis-of-product-and-business-model/>.

¹⁶Find My Hosting (2010). *Best 10 Web Hosting Companies*. Retrieved 31 July 2010 from <http://www.findmyhosting.com/>.

4 Structure Analysis

What follows will be the “heart” of this report: a quantitative analysis of the flow of funds in an actual FHTM business structure. I will use the same structure as that presented in the official FHTM business presentations.

4.1 Definitions and Assumptions

The presented “real world” example structure assumes the following:

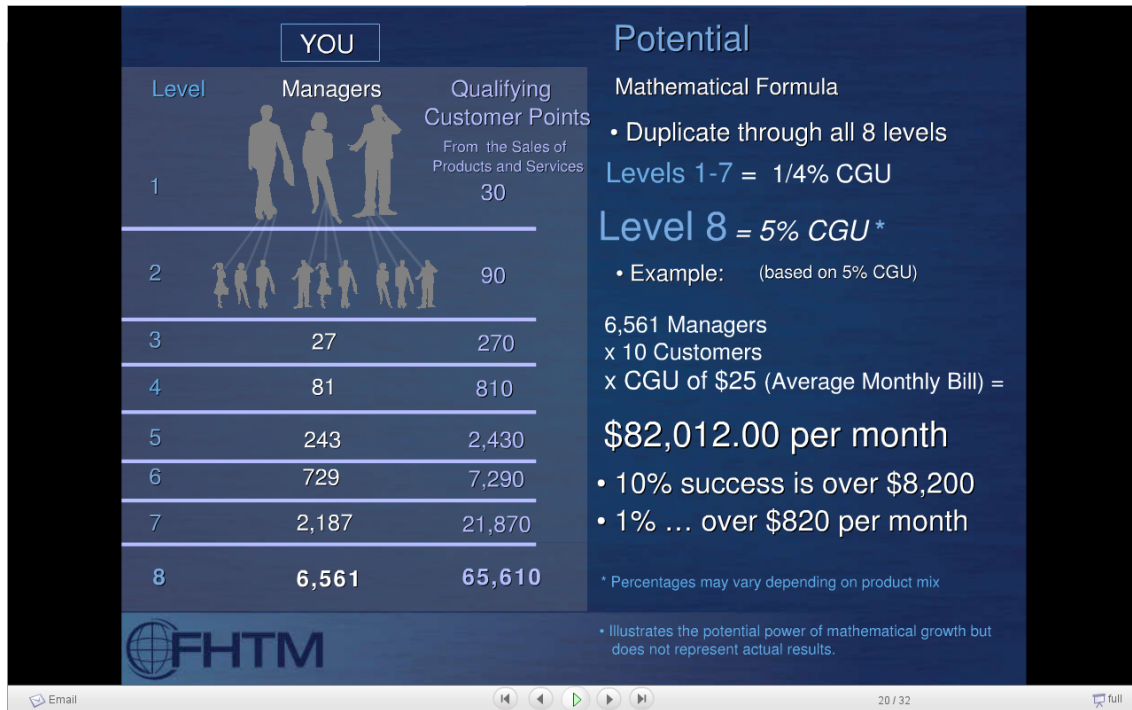
- You join FHTM
- You recruit three manager, which each recruit three managers, and so on
- This continues such that there are nine total levels in the structure
 - You, at the top, are level 1
 - Levels increase by a multiplier of three: 3, 9, 27... with 6,561 on level 9

The following definitions and values will also be used:

- Let the analysis period be 2 years (the length of a cell phone contract) with the fees and commissions above applied
- Each manager shall pay:
 - A joining fee of \$299
 - One renewal fee (for participation in year two) of \$199
 - Monthly website maintenance fees of \$20/month
- Per the hypothetical presentation structure:
 - Let level 1 = the level of the entering manager
 - Let level $1+n$ = the n th level below the manager
 - * In other words, the 1st level *below the manager* is level $1+1$ = level 2; the 8th level below the manager is level $1+8$ = level 9
 - * It should be noted that FHTM refers to level 1 as “1 level below”; my conventions differ due to it being easier to use my convention in the formulas used later
- Each joining manager shall gather 3 new managers
- Each manager acquires 10 customer points, each worth \$25
- Commission provided is 0.25% of sales made to each individual and everyone in their up-line except for the head manager, who is paid 5.0% for those in level 9

4.2 Visual Depiction

It may help to visualize the structure being referenced. Here is a screenshot extracted from the presentation used with Reel FHTM business presentations:¹⁷



As the picture illustrates, the formula for revenue is quite simple. With each level growing in powers of three, one simply takes the percentage of revenue earned per level (0.25% in levels 2-8 and 5.0% at level 9) and multiplies it by the total sales per level (10 sales of \$25 each per managers on each level) to obtain their displayed value of \$82,012.00 *per month*.

¹⁷Slideshare.net (2010). FHTM Business Presentation 03-2010. Retrieved 31 July 2010 from <http://www.slideshare.net/wilks100/fhtm-business-presentation-032010>.

We also have to remember the Customer Acquisition Bonus (\$100 bonus for each manager brought in, provided they gather three customer points within 60 days). Here is the corresponding slide from FHTM's presentation depicting this type of income:

Introduce the Business to Others

YOU { Personal Customers
(Up to 25% CGU)

Steve { 3 Qualified Customers *
(Customers are the buyers
of FHTM's products and services)

**\$100 Quick Start Bonus (QSB)
for You!**

FHTM * Products and services must be sold and activated within 60 days of Manager's start date
in order to be eligible for bonuses.

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4.3 Customer Generated Usage (CGU)

The following table will illustrate the revenue generated by sales commissions at each level of the illustrated pyramid. FHTM focuses only on the potential earnings of the top individual; it is instructive to examine the model in its entirety.

Level	Managers on level	Total Commission (per month)	Commission/manager
1	1	\$84,062.50	\$84,062.50
2	3	\$6,150.00	\$2,050.00
3	9	\$6,148.13	\$683.13
4	27	\$6,142.50	\$227.50
5	81	\$6,125.63	\$75.63
6	243	\$6,075.00	\$25.00
7	729	\$5,923.13	\$8.13
8	2,187	\$5,467.50	\$2.50
9	6,561	\$4,100.62	\$0.63
Totals	9,841	\$130,195.00	N/A

The formulas used are as follows:

- Managers on level: $mgrs_n = 3^{n-1}$
- Total commission; the sum of commissions earned on any level n (comission_n):
 - For levels 2-9 this equates to: $\sum_{n=level}^9 mgrs_n \times 10 \times 25 \times 0.0025$
 - For the top level, this equates to: $\left(\left(\sum_{n=1}^8 mgrs_n \times 0.0025 \right) + mgrs_9 \times 0.05 \right) \times 10 \times 25$
- Commission/manager (on any level, n): $\frac{Commission_n}{mgrs_n}$

4.4 Customer Acquisition Bonus (CAB)

The following table illustrates the funds received by FHTM in buy-ins and renewals along with the corresponding amount paid in bonuses for gathering other managers in one's down-line:

Level	Managers on level	Total level fees	Total CAB paid	FHTM net revenue
1	1	\$498	\$300	\$198
2	3	\$1,494	\$900	\$594
3	9	\$4,482	\$2,700	\$1,782
4	27	\$13,446	\$8,100	\$5,346
5	81	\$40,338	\$24,300	\$16,038
6	243	\$121,014	\$72,900	\$48,114
7	729	\$363,042	\$218,700	\$144,342
8	2,187	\$1,089,126	\$656,100	\$433,026
9	6,561	\$3,267,378	-	\$3,267,378
Totals	9,841	\$4,900,818	\$984,000	\$3,916,818

The formulas used are as follows:

- Managers on level n: $mgrs_n = 3^{n-1}$
- Total fees at level n: $mgrs_n \times (\$299 + \$199)$
- Total CAB paid to any level n: $mgrs_{n+1} \times 100$
 - Note that the CAB is not paid to a manager on level n *until* three managers have been recruited by him/her on level n+1
- FHTM net revenue: Total fees - Total CAB paid on any level n
 - Since the CAB of \$100 is only paid *after* recruited managers have paid buy-ins of \$300, FHTM is always ahead \$200/manager, regardless of the size of the pyramid
 - Also, with no 10th level, there are no bonuses paid to level 9. Regardless of the depth of the pyramid, the bottom level will never receive bonuses for no one is below them.

4.5 Website fees

Recall that website hosting fees range anywhere from \$4-8 when purchased from an external hosting company. Even though \$4-8 already includes some type of profit since a hosting company could not charge these fees without making money, let us assume that FHTM invests a total of \$15 for each site. Keep in mind that these are monthly fees and being measured over 2 years (hence the 24 in the calculations below). The fees and FHTM income are as follows:

Level	Website fees paid	FHTM net revenue
1	\$480	\$120
2	\$1,440	\$360
3	\$4,320	\$1,080
4	\$12,960	\$3,240
5	\$38,880	\$9,720
6	\$116,640	\$29,160
7	\$349,920	\$87,480
8	\$1,049,760	\$262,440
9	\$3,149,290	\$787,320
Totals	\$4,723,690	\$1,180,920

The formulas used are as follows:

- Website fees paid: $mgrs_n \times \$20 \times 24$
- FHTM net revenue: $mgrs_n \times \$5 \times 24$

4.6 FHTM income from commissions

Prior to conducting a “big picture” analysis, it is necessary to establish one final piece of the puzzle. We know what fees are paid to FHTM, what bonuses are paid by FHTM, and what commissions are earned by managers in this pyramid. What we do not have, however, is how much FHTM is earning in *commissions*.

Rather than trying to establish this number from the few examples above of listed affiliate program commissions, I will establish the minimum commission required for FHTM to break even in this pyramid structure.

The commission rate, r , at which FHTM will break even, can be found using the following formula:

$$mgrs_{tot} \times r = \left(\sum_{n=1}^9 mgrs_n \times 0.0025n \right) + mgrs_9 \times 0.05 - 3^8 \times 0.0025$$

In this formula,

- $mgrs_{tot}$ = total managers in levels 1-9
- $mgrs_n$ = number of managers at any given level, n
- The subtracted $3^8 \times 0.0025$ at the end compensates for counting the 9th level income at 0.25% for level 1 since the top level's income from level 9 is already accounted for in the $mgrs_9 \times 0.05$ portion of the equation. We're simply avoiding double counting level 9 income at two different commission rates.

For this particular pyramid, the summation may be further reduced:

$$\sum_{n=1}^9 3^{n-1} \times r = \left(\sum_{n=1}^9 3^{n-1} \times 0.0025n \right) + 3^8 \times 0.05 - 3^8 \times 0.0025$$

Which can be reduced to:

$$r = \frac{(3^8 \times .05) - (3^8 \times 0.0025)}{\sum_{n=1}^9 3^{n-1}} + 0.0025n$$

And for for n=9 this is equal to:

$$r = \frac{6561 \times (.05 - .0025)}{9841} + 0.0025 \times 9 = 0.0542$$

In plain english, this means that for a pyramid 9 levels deep in which each level grows by a factor of three with the commission rates as established, FHTM needs to earn 5.42% per sale on average to break even. Given the real world rates cited above, I find this to be quite reasonable, especially considering that high volumes typically increase commission rates and FHTM would be moving 98,410 sales in the pyramid described.

4.7 Net loss/gain summary

Given what has been shown above, how does everything look as a whole?

- Customer Generated Usage
 - FHTM pays \$130,195/month in commission rates
 - If FHTM made an average of 6.0% per sale, its income would be \$147,615/month for a total gain of \$418,080 over 24 months
 - If FHTM made an average of 8.0% per sale, its income would be \$196,820/month for a total gain of \$1,599,000 over 24 months
- Customer Acquisition Bonus
 - FHTM pays \$984,000 over 24 months in bonuses
 - FHTM takes in \$4,900,818 in buy-in and renewal fees in 24 months
 - This translates to an overall gain of \$3,916,818 over 24 months
- Website fees
 - FHTM pays an assumed \$15/month per manager for costs associated with server and website maintenance
 - FHTM brings in \$20/month per manager for his/her personal site
 - This translates to an overall gain of \$1,180,920 over 24 months.¹⁸

4.8 Missing information

It would be extremely helpful and interesting to have more information for this analysis. Primarily, having the average commission rate FHTM makes on sales would be outstanding.

Here is a list of other information I would find useful:

- The true margins of the website fees
- Operating expenses not considered such as:
 - Employees who serve as receptionists, accountants, legal consultants, etc.
 - Office space rental or purchases/utilities, storage space, etc.
 - Any benefits or other overhead (or lack thereof)

¹⁸Personally, I find this estimate to be *incredibly* low, as a website hosting service should consist primarily of an initial server investment, and then costs should reduce significantly for maintenance. Instead, we are assuming a fixed rate of \$15/month per person for 2 years, which seems highly unrealistic.

- What are typical time statistics for managers? For example, how many stay through the first whole year and pay the \$199 renewal fee?
- What is a typical “real life” pyramid structure?
 - Is it very shallow (n is low)?
 - Is it wide/narrow (is the multiplier between levels typically greater or less than 3)?
 - Do anomalies develop?
 - * A pyramid in which one chain is 20 long but all others are at most 8 long?
 - * A pyramid in which level 6 has 3,000 managers, but level 7 only has 500, and the pyramid’s last level, 9, only has 5 managers?
- What is the typical length of a service kept?
 - FHTM’s presentations discuss “loyal customers”; do they actually acquire long-term customers, or do they leave after the initial 18-24mos service period has expired?
- What happens to commissions being generated after a manager fails to pay a renewal fee?
 - Does the up-line continue to receive commissions which resulted from a down-line manager’s sales once he/she has left?
 - Does FHTM acquire the entire amount instead?

There are surely other areas where my analysis and figures fall short, but this is a start. If the above information were present, far more could be done to paint a more precise overall picture.

5 Discussion

5.1 Looking at things differently

It is interesting to note that in the FHTM video presentations, they focus solely on the individual at the top of the pyramid. They want the viewer to think of themselves on top. They make no mention of how long it takes to amass 9,940 in one’s down-line chain.

Let’s take our eyes off of the top individual for a moment and consider the overall statistics:

- The top 0.01% of managers make 64.5% of the total pyramidal income
- The bottom 66.7% of managers make 3.1% of the total pyramidal income
- 6,561 individuals (66.7%) are making only \$0.65/month or \$7.80/year, yet they are responsible almost entirely for level 1’s gargantuan income
- The top individual is making approximately \$1MM/year and those just one level down (3 managers) are making ~\$24k/year

The distribution is obviously skewed. Rather than reducing the revenue by a factor of three between levels 1 and 2, we have reduced it by a factor of 41. Level 2 is barely viable as a source of living income, and level 3 is almost certainly not (at \$8k/year). In other words, the only incentive is to amass many individuals 8 levels below from which the 5.0% commissions flow.

Another way to look at things would be to consider the total amount paid in commissions and bonuses over 1 year, divided by the total number of managers in the pyramid: $\frac{(130,195 \times 12) + 984,000}{9,841}$ = \$258.75/year. We read this correctly: if all of the funds paid to the entire pyramid were equally distributed, it would amount to only \$258.75 per person per year.

Since the buy-in is \$299/manager, FHTM is already ahead \$40/person *without even considering the profits from commissions*. Buy-ins alone offset the \$258.75 average commissions and make things profitable. If we extend this to the second year when a \$199 renewal is required and no bonuses are paid, FHTM is ahead \$240/person. This is purely based on the buy-in fees and does not take into account FHTM's own sales commissions or the website fee profits.

5.2 Is FHTM a Pyramid Scheme?

There are a lot of interesting posts regarding whether or not FHTM, and multi-level marketing in general, falls into the category of a pyramid scheme. Wikipedia defines a pyramid scheme as follows:¹⁹

A pyramid scheme is a non-sustainable business model that involves the exchange of money primarily for enrolling other people into the scheme, without any product or service being delivered...A successful pyramid scheme combines a fake yet seemingly credible business with a simple-to-understand yet sophisticated-sounding money-making formula which is used for profit. The essential idea is that the mark, Mr. X, makes only one payment. To start earning, Mr. X has to recruit others like him who will also make one payment each. Mr. X gets paid out of receipts from those new recruits. They then go on to recruit others. As each new recruit makes a payment, Mr. X gets a cut. He is thus promised exponential benefits as the "business" expands.

I find this quite reminiscent of what FHTM is doing, namely:

- Mr. X makes one payment of \$299 to join the business
- Mr. X then recruits three more, who pay \$299 each, to do what he did and also makes a few sales himself (three at a minimum)
- Mr. X trains the new recruits to make a few sales and gets paid 0.0025% for each of their sales
- When they complete their three sales, Mr. X gets a \$100 "cut" of their initial buy-in
- Mr. X's promised revenues are determined by the *exponential* growth of his downline.

¹⁹Wikipedia (2010). *Pyramid scheme*. Retrieved 31 March 2010 from http://en.wikipedia.org/wiki/Pyramid_scheme.

One final point to consider is whether goods or services are actually the primary source of revenue. A pyramid scheme is such that goods or services are not actually being sold/consumed. While on first glance it may seem like FHTM is definitely based on “customer points” (sales), what if we consider the following:

- The web site counts as a customer point
- The Reel FHTM presenters refer several times to the fact that routing *one's own* services through FHTM counts as a customer point; in other words, renewing a pre-existing cell phone plan through one's own FHTM website portal rather than through one's carrier directly counts as a point
- Presenters refer several times to switching one's own family members' services to route through their FHTM website portal

Given this, what products or services have been provided/generated? It would seem that the sales may very well be occurring *within* the pyramid itself, especially if each manager only needs three customer points at a minimum. With a web site (1 point) and family plan (2 points), the sales are done. Now, 10 customer points may be difficult for one manager to find within his or her own household, and thus at least some new sales will be generated. Even granting this however, it is reasonable to assume that for the 10 points generated in the above examples, 3 or more are likely to come from the joining manager. If this were the case, 30% of all commissions would be generated by the members inside the pyramid.

It would be very interesting to find out how many *new* sales are generated at all. Given that FHTM represents many common services like cell phones and television, it would not be surprising if most people's “sales” simply arise from asking friends to renew their pre-existing services to route through FHTM. If this were the case, the majority of commissions generated may simply arise from a “shifting” of services rather than any new sales.

My initial conclusion is that if FHTM is not a pyramid scheme, it is as close as one can come:

- Fees are charged to join even though nothing is received for this fee
- Incentives (bonuses) are provided to recruit others
- A reasonable quantity of goods and services (the source of commissions) are paid for by the pyramid itself, which means that no new product/service is really being delivered
- Members are promised literal exponentially growing amounts of income

5.3 Outside Opinions

I ran across three notable sources of outside opinions about FHTM that I thought would be helpful to present.

- **North Dakota: Cease and Desist Order** ^{20 21}
 - This issue seems to have been caused from FHTM’s failure to obtain a ‘transient merchant license’ from the state per proper protocol
 - The official response to the issue on FHTM’s site indicates that it may have been due to FHTM implying in some manner that income was generated primarily via recruitment ²²
 - As of the letter sent by FHTM, the issue has been resolved
- **Montana: Cease and Desist Order** ^{23 24}
 - The order was issued by the Commissioner of Insurance and Securities who found it to be a pyramid scheme
 - The Commissioner also stated that the investigation led her to believe that participants only benefited if they recruited others
 - As of 07-31-2010 the issue has been settled by FHTM with a payment of approximately \$1,000,000 in fines and restitution to managers ²⁵
 - * It seems that the buy-in fee in Montana has been capped at \$75 instead of the original \$299
- **Better Business Bureau**
 - Warning to the Washington State Tri-City Area: in late March, the Better Business Bureau issued a warning to Washington state to warn them about FHTM, a pyramid scheme, that would be headed their way ²⁶

²⁰Repspace and Npros (2010). *FHTM North Dakota Cease and Desist*. Retrieved 31 March 2010 from <http://repspace.com/forums/t/1418.aspx>.

²¹Network Marketing Works.com Blog (2010). *Attorney General Issues Cease and Desist Against Fortune Hi-Tech Marketing*. Retrieved 31 March 2010 from <http://www.network-marketing-works.com/blog/attorney-general-issues-cease-and-desist-against-fortune-hi-tech-marketing-1632/>.

²²Fortune Hi-Tech Marketing (2010). *Notice to all FHTM Representatives*. Retrieved 31 March 2010 from <http://www.fhtm.net/news.aspx>.

²³KFBB.com (2010). *Montana State Auditor: Pyramid Scheme Stole \$1.8 Million from Montana Residents*. Retrieved 31 March 2010 from <http://www.kfbb.com/news/local/87709867.html>.

²⁴Fortune Social (2010). *Updated Notice to All FHTM Representatives in Montana*. Retrieved 31 March 2010 from <http://www.fortunesocial.com/fortune-hi-tech-blogs/notice-to-all-fhtm-reps-in-montana.html>.

²⁵MLM-theWholeTruth.com (2010). *Fortune Hi-Tech Marketing (FHTM) Settles with Montana Regulators but Disagrees over Headline*. Retrieved 31 July 2010 from <http://www.mlm-thewholetruth.com/network-marketing-news/fortune-hi-tech-marketing-fhtm-settles-with-montana-regulators-but-disagrees-over-headline/>.

²⁶KDNU.com (2010). *Better Business Bureau warns about possible pyramid scheme*. Retrieved 31 March 2010 from <http://www.kndu.com/global/story.asp?s=12214040>.

- As of 03-31-2010, FHTM's BBB rating is a D+ ²⁷
 - * The rating is not due to official accreditation by the BBB; FHTM has not sought or not obtained this standing
 - * The rating, according to the site, is due to 1) customer complaints and 2) government actions against FHTM
- As of 07-31-2010, FHTM's BBB rating is an F

While none of these instances has resulted in a definitive ruling against FHTM, the fact that it has attracted cease and desist orders in two states as well as a fairly horrible BBB rating (consistently) is enough to at least cause one's eyebrows to raise.

6 Closing remarks

6.1 Financial picture recap

The brief analysis above has presented a reasonable illustration of FHTM's structure and the results which emerge from their own example pyramid. It is clear that bonuses paid vs. buy-ins and renewals are quite profitable and if a 5.42% commission rate can be established, commissions are also certainly a source of profit. Recall also that the bonuses are only paid once while renewal fees occur annually. For the pyramid examined, this amounts to nearly \$2MM/year of income.

In addition, it has been shown that the top 0.01% (1/9,841) of individuals earns 64.5% of the income and the bottom 66.7% (6,561/9,841) of individuals earns 3.1% of the total income.

Website fees are almost surely a huge profit for FHTM. I have been extremely generous in my assumption of \$5 profit, and this *still* leaves FHTM ahead \$1.1MM ahead per year.

6.2 Fast forward

The ability for everyone to recruit 'just three more' *ad infinitum* is an illusion. Were the hypothetical pyramid above to continue just two more levels, there would be 60,000 managers on the level 11. In what physical location can "three get three get three" such that 60,000 salesmen/women join the same business and compete for the same market space successfully? If 60,000 seems feasible, go down 2 more levels to 530,000 managers. Where are these half million managers going to operate so as not to run into one another?

It is my prediction that as FHTM continues, those who are able to amass a large down-line may become unbelievably wealthy at the expense of thousands working below them with no proportional benefit.

²⁷ BBB of Central & Easter Kentucky, Inc. (2010). *BBB Reliability report for Fortune Hi-Tech Marketing Inc.* Retrieved 31 March 2010 from <http://www.lexington.bbb.org/commonreport.html?compid=14004419>.

In addition, middle class jobs are the usual means in which these products and services are sold. The massive peer-to-peer sales force as described in the nine level pyramid above could theoretically produce 98,000 sales. Instead of being able to pay any number of individuals a modest income to accomplish these sales, these jobs will be replaced with 9,841 men and women, one of which is making ~\$1MM/year and the other 9,840 are making between \$7.20 and \$24k/year.

Since fast forwarding of FHTM's business model results in everyone being a manager or knowing someone who is a manager, the entire structure will eventually collapse leaving the top levels to cash out their chips and many, many others to have lost their joining fees. Admittedly, being robbed of a \$299 buy-in fee does not seem astronomical. Even so, all FHTM is doing is providing a method to redistribute wealth from many to an extremely elite few.

6.3 Final statement

FHTM is not something that strikes people as obviously wrong, flawed, or improbable. While embarrassing to admit, when I was shown the presentation at 1:00am in the morning or so by a close friend, I was initially skeptical but then swayed by the portrait he painted of *what one could do with the money*. I forgot about my gut reaction to the film (pyramid scheme) and was honestly mesmerized by what life could be like with no college loans and mortgage. My mind began scheming, getting way ahead of itself about what it would take to enact a secondary means of income to accomplish these goals. I state this in order to add some humanness back into FHTM. It's appealing and the hope of being at the top of the illustrated pyramid is extremely powerful.

While I realize the incentive to advance is quite high, my hope is that I have painted a fuller picture of how FHTM works. If those who read this report take away only one thing, I hope that it is this: *for every one individual bringing in heaps of cash, thousands are required to do the actual work, and they take home a pittance for their efforts*.

Should it be considered a moral endeavor to profit at the expense of thousands? I hardly think so, and the world seems to speak to this. There is strong evidence that societal health is indirectly proportional to the gap between rich and poor.²⁸ Will the facts contained here deter everyone? Surely not; greed is far too pervasive to be swayed with one report. Still, let us recall that for every 1 man's wealth, 9,840 are required to play along. The masses determine whether the desires of the top 0.01% are fulfilled. Moving forward, then, don't focus on the top of the pyramid, for we all enter at the bottom.

²⁸Wikipedia (2010). *Social determinants of health*. Retrieved 31 July 2010 from http://en.wikipedia.org/wiki/Social_determinants_of_health#Neo-materialist_approach. See footnotes for the linked section entitled "Neo-materialist approach".