Drawing the Line

Distinguishing Melaleuca’s model from multilevel marketing
Who We Are

An Innovative Direct Marketer of Health and Wellness Products

Since 1985, Melaleuca has developed natural, high-quality health and wellness products for families around the world. We compete in the consumer goods industry against major manufacturers like Procter & Gamble, Colgate-Palmolive, and Johnson & Johnson. We manufacture a wide variety of household products, including multivitamins and nutritionals, personal care, cosmetics, and environmentally friendly home cleaning products. We are also one of the top 75 e-commerce companies in the country, and much like Amazon or L.L.Bean, we ship our products directly to the end user, most of whom interact with us directly online.

We’ve chosen a different channel for getting our products into our customers’ cupboards and pantries than many of our competitors in the consumer goods industry. Instead of relying on mass-market channels like Walmart or Safeway through stores or retail outlets, we’ve elected to market our products through word-of-mouth advertising and to share our revenues with customers who refer other customers. This allows us the opportunity to produce much higher quality products at a much lower price than if we marketed through traditional mass market channels.

At Melaleuca, we have what has proven to be a very fair and rewarding program for those who refer our products.

Unfortunately, some misguided individuals have confused what we do at Melaleuca with multilevel marketing (MLM). We believe it’s important to distinguish the many differences between Melaleuca’s business model, called Consumer Direct Marketing®, and the MLM model. This brochure outlines the elements of an MLM company and contrasts those points with Melaleuca’s business model. Upon examination, we’re confident you will recognize Melaleuca has almost nothing in common with the MLM industry.
Melaleuca vs. MLM

The distinguishing but glaring difference between Melaleuca’s Consumer Direct Marketing® model is that with Melaleuca there are not multiple levels of distribution. As all state and federal legal definitions make clear, MLM consists of the buying and reselling of products by distributors. Melaleuca Marketing Executives do not resell any product. In fact, Melaleuca’s policies strictly forbid it.

In Melaleuca’s model, a Marketing Executive simply refers customers to Melaleuca, helps them set up shopping accounts, and then trains others to do so. Melaleuca’s Marketing Executives don’t sell products like MLM distributors. Commissions are not based on sales to other distributors, but on purchases made by actual customers.

These differences are significant, which is why the Idaho State Tax Commission has stated, “Melaleuca, Inc. does not fall within the legal definition for a Multi-Level Marketer.”

With Melaleuca there is only a single transaction between Melaleuca and the end consumer. Melaleuca has no distributors since Melaleuca handles the entire transaction—thus no multiple levels.
Melaleuca’s model

There are several legal definitions of the term “multilevel marketing” contained in U.S. federal or state laws. However, Melaleuca does not fit any of those legal definitions.

There are four common characteristics that appear in the various legal definitions of MLM:

1. the MLM sells its products through distributors, and/or
2. the MLM distributes its products through distributors, and/or
3. the MLM sells its products at different levels, and/or
4. the MLM offers better pricing for those in higher levels.

Melaleuca’s model does not have any of these characteristics. Instead, Melaleuca sells and ships directly to consumers and the pricing is the same for everyone, regardless of status. Preferred Customers receive a discount in exchange for their consistent loyalty, but that discount has nothing to do with a person’s place in any marketing organization.

Federal Trade Commission

The term “multilevel marketing” is defined by the U.S. Federal Trade Commission (FTC) as “one form of direct selling, [which] refers to a business model in which a company distributes products through a network of distributors who earn income from their own retail sales of the product and from retail sales made by the distributors’ direct and indirect recruits. Because they earn a commission from the sales their recruits make, each member in the MLM network has an incentive to continue recruiting additional sales representatives into their ‘down lines.’” (See CFR Part 437, note 34).

The FTC definition does not apply to Melaleuca. Melaleuca does not fit within this definition because: (1) Melaleuca’s customers purchase products directly from Melaleuca—there is no “network of distributors,” and (2) Marketing Executives do not earn income from their own “retail sales” of Melaleuca products or from the retail sales of their “direct or indirect recruits.”

State Law

Eight states (and one U.S. territory) define “multilevel marketing” or “multilevel distribution” through statute or regulation. Like the FTC definition, most of these state laws incorporate the company’s use of independent agents, contractors, or distributors to sell or distribute its products (Hawaii, Maryland, Massachusetts, Georgia, Montana, Wyoming, and Idaho). Most states with legal definitions of MLM further specify that selling takes place on different levels of distribution (Georgia, Maryland, Massachusetts, Montana, Wyoming, and Louisiana). Some MLM definitions refer to companies whose product prices increase as they move through multiple levels of distribution (Louisiana and Maryland).

State law definitions do not apply to Melaleuca. Melaleuca does not fit any state definition because: (1) Melaleuca does not have a network of independent agents who buy products and then sell or distribute them to consumers; (2) all consumers purchase Melaleuca products directly from Melaleuca; (3) Melaleuca Marketing Executives do not sell products on different levels of distribution; and (4) pricing of Melaleuca products does not change based on position. The same pricing structure for Melaleuca products is offered to all potential customers.
What are the red flags of MLM companies?

In addition to the legal definitions, certain business practices are commonly associated with MLM companies.

• They often encourage distributors to purchase large quantities of inventory, resell product, and acquire inventory to boost commissions rather than meet actual demand.

• They almost always rely on inflated pricing, have low customer retention rates, and tout a “ground-floor opportunity.”

You’ll find that Melaleuca doesn’t run its business with any of these practices. Commissions are not paid on the accumulation of inventories, but strictly on what Melaleuca sells to end consumers.
Here’s what the experts say...

**James E. Risch**  
*U.S. Senator (former Governor of Idaho)*

“Melaleuca’s success is the result of its ability to develop compelling products for the marketplace and effectively implement a direct-to-consumer model... Occasionally, people have wrongly referred to Melaleuca as a multilevel marketing company. It is clear that Melaleuca’s model is not multilevel marketing, and is indeed distinctively different.

“Importantly, Melaleuca’s business operations have been reviewed by State Officials, the Better Business Bureau and legal experts on marketing practices and uniformly all declare that Melaleuca is not a multilevel marketing company. Melaleuca is, by every measure, a direct marketer and online retailer of health and wellness products, not a multilevel marketing company.”

---

**Jeff Sayer**  
*Director, Idaho Department of Commerce*

“Much of Melaleuca’s success can be attributed to the fact that it is a direct sales company that uses a consumer-direct marketing model. Some people might mistake its model with MLM because both offer a home business opportunity, however, the nuances in Melaleuca’s business model create a clear distinction from the traditional multilevel model.

“When Frank VanderSloot originally formed Melaleuca, his commitment to consistently create quality products and shun the MLM model in favor of a direct marketing strategy has made all the difference and is the key driver behind this great Idaho success story.”

---

**Kimberley Strassel**  
*The Wall Street Journal, editorial board member, author of The Intimidation Game*

“Melaleuca is a company that depends heavily on its good reputation. It sells nutrition and cleaning and personal care products that are marketed as having natural ingredients and being environmentally friendly. Hundreds of thousands of customers order direct from the company, and Melaleuca encourages those orders by paying commissions to home-based operators who refer the products. (Melaleuca is neither a pyramid scheme nor a multilevel marketer, contrary to liberal spin.)”

---

**Idaho State Tax Commission**

“Melaleuca, Inc. does not fall within the legal definition for a Multi-Level Marketer.”
C.L. “Butch” Otter  
Idaho Governor

“Melaleuca is a direct marketing company with a customer referral business model that has enabled it to bypass traditional marketing channels without multiple levels of distribution that are typical of an MLM.”

Will Jenson  
Economics professor, 
President of Inform Analysis

“Based on my experience and in-depth knowledge of Melaleuca and their business model, I see little similarity between Melaleuca and businesses involved in multilevel marketing. It’s unfortunate that misinformation leads some to lump Melaleuca into a category of companies that participate in multilevel marketing. MLMs are characterized by features such as multiple levels of distribution, product reselling, and inventory loading, none of which are found in Melaleuca.

“It’s true that some view a relationship with Melaleuca as a business opportunity and means to earn income. There are many companies across nearly all industries that find success in an incentive-based sales approach. Melaleuca’s marketing executives are rewarded based on hard work and many hours of labor. Those marketing executives who choose to expand their earning potential are financially rewarded for assembling an effective team of individuals who share the desire to grow the company. Performance based salaries and commissions are effective tools for businesses to ensure those who are willing to work get their reward, and using this compensation structure does not make a company a multilevel marketer.”

Mike Simpson  
U.S. Congressman (ID-02)

“Melaleuca is a wonderful asset and economic driver for the people of Idaho and throughout North America. The company’s array of effective wellness products and its unique business model have appealed to consumers throughout the world for many years. I’m convinced that operational differences in its business model make it a direct marketing company, not a multilevel marketing company. Based on my experience with Melaleuca, it would be inaccurate to call it a multilevel marketer or an MLM. Melaleuca has earned its excellent reputation by delivering quality products, keeping its promises, protecting its customers and independent marketing executives, and offering a genuine home-based business opportunity with no risk to thousands of people.”

Curt R. Thomsen  
Managing partner of Thomsen Holman Wheiler PLLC

The law firm Thomsen Holman Wheiler PLLC wrote a six-page legal opinion about Melaleuca’s business model. The firm concluded, “Melaleuca is not an MLM under the [FTC’s] Business Opportunity Rule (2012 Amendment) because its Marketing Executives do not ‘sell’ Melaleuca products themselves directly. All sales are directly between Melaleuca and the customer.

“There is no requirement in the Melaleuca model to purchase products to resell, the Marketing Executives are not physical inventory buyers or distributors, and there is no elevation in pricing in the relationship between Melaleuca and the marketing executives pricing. Melaleuca’s own registered term ‘Consumer Direct Marketing®’ is to us the most appropriate description of this activity, and not ‘multilevel marketing’.”
Here’s what the experts say...

**Dale Dixon**
*President/CEO, Better Business Bureau Snake River Region*

“As part of our mission to build trust and confidence in the marketplace, BBB serving the Snake River Region has studied the business practices of many companies in our region, including Melaleuca. “Melaleuca earns an A+ rating from BBB and demonstrates a commitment to adhere to BBB’s Standards for Trust; Melaleuca is working to build trust through honesty, transparency, and responsiveness. “Melaleuca does not have multiple levels of distribution, which means its independent agents do not distribute inventory from one agent to the next. People purchase what they want for personal use; conversely, people are not compensated for reselling to others. The company’s ‘marketing executives’ make a commission by referring customers directly to the company, rather than serving as a distributor of products. For this important distinction, BBB serving the Snake River Region categorizes Melaleuca as a retailer.”

**Raul Labrador**
*U.S. Congressman (ID-01)*

“Melaleuca is a successful manufacturing company in Idaho that provides its customers with health and home care products. It has created a distinctive sales model that compensates people for referring customers. If you look at its structure, you’ll find Melaleuca operates differently than a MLM company. For example, the role of its independent contractors, which Melaleuca calls ‘marketing executives,’ is to refer customers and help them create shopping accounts and not to sell the company’s products.”

**Steve Smead**
*Editor, Idaho Falls Magazine*

“Of course, it’s one thing to ask a man on the street if he believes Melaleuca is a MLM company, but it’s something else to talk with people who are in the know. Instead of relying on the company’s perspective or the layman’s view, I took the question to six business experts, legislators and others to learn what the experts say. “After taking a look at the company and doing a little homework, these six individuals essentially arrived at the same conclusion surrounding the MLM question: Melaleuca does not meet the MLM definition, and it should not be called a multilevel marketing company.”
Corey Smith  
Executive Director,  
East Idaho Entrepreneurial Center

The East Idaho Entrepreneurial Center, a nonprofit research group that collaborates with two Idaho universities, conducted a 40-page analysis about Melaleuca’s business model to determine if the company is an MLM. The research study consisted of literature reviews, website analysis, and phone interviews with Melaleuca and five MLM companies: NuSkin, Herbalife, Amway, Monavie, and Xango. Researchers compared these companies by identifying several MLM attributes and created an index rating system to determine to what extent the companies followed MLM business practices.

“The results showed Melaleuca had the lowest index score, being two times lower than the average score of the five comparison companies. Based on this data, our research team concluded Melaleuca does not follow the practices or behaviors associated with MLM companies.

“Based on independent research and the study’s key findings, the East Idaho Entrepreneurial Center concluded that Melaleuca’s business structure does not resemble a multilevel marketing company.”

Dan Cravens  
Economist, Idaho  
Department of Labor

“Much of Melaleuca’s success has come by developing health and wellness products that meet consumers’ demands. However, what sets Melaleuca apart as a company, and what has made it a winner in the arena of entrepreneurship, is its innovative business model.

“As an economist, I am quite familiar with traditional business models where manufacturers pay advertisers and retail merchandisers to get their products into consumers’ hands. I am also familiar with the multilevel marketing (MLM) model where the business strategy is to enlist distributors who must purchase products, then attempt to resell those products to earn an income.

“Melaleuca employs neither a traditional business model nor an MLM model.

“Melaleuca is a consumer products manufacturer that effectively uses a direct marketing strategy and not an MLM model.”

Alex LaBeau  
President, Idaho Association of Commerce & Industry

“It’s interesting to me that someone might confuse Melaleuca’s business model with multilevel marketing. When you look at Melaleuca, it operates very differently from what you would see in MLM companies. Melaleuca’s program simply involves customers purchasing directly from the company. Some of those customers refer others for a commission—not unlike dozens of customer referral programs run by hundreds of traditional companies. There’s nothing multilevel about that.”
Don’t Confuse Melaleuca with Multilevel Marketing

Traditional MLM companies often use a strategy of “setting people up in business” by having distributors purchase significant amounts of inventory with the hope of getting rich quickly, only to learn the difficulty of getting rid of the inventory. In many cases, that inventory ends up in their garage and becomes a drain on a family’s finances. Distributors, consultants, or “independent business owners” purchase steeply priced products such as specially filtered water, skin creams, exotic berry juices, or body-enhancing magnets, and then they attempt to sell those items to their friends and neighbors. If they are unable to move through that inventory, they are left “holding the bag.”

Whereas MLMs often incentivize people to buy an inventory of products, Melaleuca encourages customers to purchase only the products they need and intend to use in their home on a monthly basis. At Melaleuca, there is no incentive to build a product inventory and, therefore, no financial risk.

MLMs often have a very difficult time determining how much of their products are ultimately sold to end consumers.

Contrast that with Melaleuca’s strategy of providing natural products that consumers use on a daily basis. Of those who enroll with Melaleuca, 88 percent have never referred another customer or have not done so for several years. These customers continue to purchase products every month because they genuinely want them in their homes, and not because they want to qualify for a bonus. The company consistently maintains a 96 percent month-to-month reorder rate, meaning that 96 percent of all customers who ordered last month will order again next month. These customers do not expect a financial reward. They just love the products.

Another distinguishing feature of MLMs is that they usually charge several times what their product is worth in the marketplace (e.g. $40 for a bottle of juice that would sell for less than $5 at a grocery store). Melaleuca’s products are competitively priced against retail, grocery, and drugstore brands on a per-use basis, even though they contain higher-quality ingredients than those brands. Our pricing structure allows Melaleuca to go head-to-head with the major product manufacturers and aggressively compete against the most popular brands in the world. That is simply not an MLM practice.
In MLMs, those who “get in on the ground floor” win, while those who get in last, as the company is collapsing, lose. Melaleuca’s compensation plan has rewarded those who have referred customers for the last 30 years, and it has become more rewarding over that same period. Today, new enrollees can look forward to building lasting businesses that will compensate them for decades to come. Melaleuca discloses annual income statistics for prospective Marketing Executives to review so they can have a realistic expectation about potential income for their work.

When one compares the history and current state of most MLM companies, it’s not hard to see why Melaleuca created a different kind of business model. The experience you’ll have as a Melaleuca customer will be nothing like the experience you would have in an MLM company. You can purchase Melaleuca products directly from the company knowing that they’re substantially better than the products you’ll find on the grocery store shelves, which is where most of our competitors’ products are sold. You can build a business knowing that you’ll be fairly compensated for the customers you refer and this company will be there for you in the long run. You can trust that Melaleuca is and always will be structured for the best interests of its customers and Marketing Executives—today, tomorrow, and for generations to come.
## Typical Multilevel Marketing Companies

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>With Melaleuca there is no “investment.” Melaleuca’s customers purchase only what they will use up on a monthly basis. Since customers purchase directly from the factory, Marketing Executives need to purchase absolutely no inventory. Therefore, this creates absolutely no risk of financial loss for Marketing Executives.</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Melaleuca markets products already used in households on a daily basis—except that Melaleuca’s products are higher quality, more effective, and often safer to use than grocery store or drugstore brands. This means it doesn’t cost anything more to be a Melaleuca customer than it does to shop at a grocery store. Many of Melaleuca’s products are one-of-a-kind. That is to say they far exceed the quality of what people are already buying every day.</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Melaleuca’s products and product claims are backed by science, with scientific studies comparing Melaleuca’s brands with its competitors. Melaleuca’s policy is to make no product claims that are not backed up by legitimate science and research.</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>Melaleuca does not require any of its products to be resold to someone else. In fact, policy prohibits reselling. Everyone purchases directly from the company.</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>Melaleuca offers “exceptional products at reasonable prices.” That means that Melaleuca’s products are competitively priced with grocery store brands on a per-use basis, even though they are usually substantially higher quality than those brands.</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>Each year, Melaleuca publishes how much all Marketing Executives make at which status, complete with the high, the low, and the average in each status. We’ve been doing it for years! Such a policy would easily expose most MLM companies!</td>
</tr>
</tbody>
</table>

MLMs often require or encourage “business builders” to “invest” in substantial amounts of inventory each month to qualify for bonuses.

MLMs often sell products no one really uses—like cases of magical fruit juice, magnets, or green algae—causing increased strains on family budgets.

MLMs often back up phenomenal product claims with folklore and testimonials rather than science and laboratory studies.

MLMs usually charge several times what the product is actually worth, such as $40 for a bottle of juice that you would pay less than $5 for at the store.

MLM distributors usually tout big checks to entice others to get involved. Rarely will a multilevel marketing company reveal what its distributors actually make. Most multilevel marketing companies will also never reveal their actual annual sales.
### Typical Multilevel Marketing Companies

MLMs almost always tout a “ground floor opportunity” to potential business builders, implying major advantages if you hurry and get in on the “ground floor.”

| 7 | Rather than deteriorating over time, a viable business opportunity gets better every year. As products improve through more scientific discoveries each year, it gets easier and easier to outdistance the competition. And as sales aids improve and the company’s reputation grows, it gets easier for Marketing Executives to build a substantial business faster than those who joined Melaleuca the year before. |

MLMs often operate a “volume line” that a distributor can use to call the company before midnight on the last day of the month to determine how close the distributor is to reaching a particular “volume” qualification. The distributor can then purchase the difference to qualify for specific bonuses or discounts. This incentivizes a distributor to make an even greater “investment” in inventory.

| 8 | Melaleuca has no volume line. At Melaleuca, customers buy only what they need each month. There is absolutely no incentive and no requirement for Marketing Executives to make large purchases at the end of the month to qualify for some volume level. |

The attrition rate of customers and distributors is extremely high in most multilevel companies.

| 9 | The retention rate of Melaleuca customers is extremely high. Ninety-six percent of all customers who ordered last month will order again next month. |

Many MLMs suggest that distributors quit their full-time jobs and work full-time in their multilevel business. MLM companies also often suggest that people “fake it till they make it” by appearing to be wealthy by driving fancy cars; purchasing expensive homes; buying motor homes, boats, and motorcycles; and by wearing fur coats, diamond rings, and expensive jewelry. This activity has driven thousands of multilevel marketing distributors into bankruptcy, destroyed lives, and even broken homes—all while giving a distorted impression of the company’s actual success.

| 10 | Melaleuca advocates that Marketing Executives keep their full-time job, become the best employee that they can be for their current employer, and use their Melaleuca income to add to their full-time income. Melaleuca counsels Marketing Executives not to consider leaving their full-time job until they are making several times their salary with their Melaleuca business. Melaleuca also advocates for them to stay out of debt, pay off their homes and cars, and live within their means. |

Most MLMs do not have product return policies unless the distributor cancels their distributorship. Only then will a typical multilevel marketing company honor the Direct Selling Association’s code of ethics, which requires such companies to purchase back 90% of a distributor’s resalable products.

| 11 | Melaleuca gives an absolute, no-questions-asked, 100% customer satisfaction guarantee. Melaleuca will give your money back even if you have used up all of a product and decided you didn’t like it after you used it. Grocery stores don’t offer such a guarantee. Drugstores don’t offer such a guarantee. And MLM companies certainly don’t offer such a guarantee. |
To enhance the lives of those we touch by helping people reach their goals.™