

NU SKIN ATTEMPTS TO DISCREDIT ITS WHISTLEBLOWER

Nu Skin response to inquiries about Jon Taylor, the whistleblower – and Taylor’s rebuttal

Statement by Nu Skin in response to inquiries about Jon Taylor, the primary whistleblower for Nu Skin Enterprises, Inc	Rebuttal by Jon Taylor, including references for further information. (“MLM” is the acronym for multi-level marketing. “Recruiting MLMs” are MLMs that reward recruiting far more than selling to non-network customers.)
NOTE: Unable to refute Taylor’s charges that Nu Skin has continued its misrepresentations since the 1994 FTC Order for Nu Skin to stop misrepresenting earnings of its distributors, NS officials have chosen to attempt to discredit the company’s primary whistleblower. Comments from an official company statement follows (<i>in italics</i>) in this column: <i>Nu Skin Enterprises believes that Dr. Taylor fails to make the distinction between legitimate network marketing and illegal pyramid schemes.</i>	I performed extensive comparative analyses of alternate business models to which MLM is often compared, and found five defining characteristics which clearly distinguish legitimate business operations from recruiting MLM’s, or product-based pyramid schemes. Please read carefully my report entitled <i>The 5 Red Flags: Five Causal and Defining Characteristics of Product-Based Pyramid Schemes, or Recruiting MLM’s</i> . A more valid and thorough analysis of such distinctions has not been done elsewhere, certainly not by Nu Skin or the Direct Selling Assn., the lobbying arm for the MLM industry.
<i>Contrary to Dr. Taylor’s statements, credible network marketing companies are committed to protecting consumers, not preying on them.</i>	While most participants in a recruiting MLM’s do not see themselves as victimizing or “preying” on those they recruit, a careful reading of my report on product-based pyramid schemes should help in assessing their extensive harm to consumers. Based on available data, the five defining characteristics result in an approximate loss rate of 99.9% (at least 99.94% for Nu Skin).
<i>Nu Skin charges a low sign-up fee, requires no initial purchase of product,</i>	The sign-up fee is irrelevant. It is the “pay to play” or incentivized purchases that disguise pyramid investments and the aggregate losses of billions of dollars to millions of unsuspecting consumers. NS promoters sell “pay to play” purchases aggressively.
<i>will refund 90% of the cost of unused product returned within a year,</i>	Few understand within a year that they have been scammed without deprogramming. It took me several years of donated research to fully decipher all the deceptions – even with an MBA, a Ph.D., and over 30 years marketing and direct selling experience.
<i>and is a NYSE-listed publicly traded and audited company.</i>	Responsible SEC and the NYSE officials would be concerned if they understood that a highly leveraged pyramid scheme was listed and sold to investors under the guise of a direct selling company. And after Enron, Worldcom, and Arthur Anderson, does anyone seriously believe that a company’s reports are automatically to be trusted just because they have been audited using “GAAP” – generally accepted accounting principles?
<i>The company is a responsible corporate citizen that employs thousands of people from every walk of life and shares its resources generously in every market where it does business.</i>	That they do – and by so doing buy credibility among unwitting consumers and government officials. If organized crime organizes soup kitchens in ghettos or the Columbian drug cartel assists cocaine farmers, does that make them legitimate? (See section J-3 in the <i>Complaint of Violations</i> report on Nu Skin’s non-compliance with the FTC Order). The fact that NS “employs thousands” should not obscure the source of the money used to do so. Do the ends (employment and charity) justify the means (defrauding millions of unsuspecting consumers worldwide)?
<i>Undoubtedly there are former distributors like Dr. Taylor who have become disenchanted with the business opportunity, just as there are in many industries.</i>	A 99.94% loss rate is not normal for a “business opportunity,” but is for MLM. As well might a “business opportunity” sign be posted above gambling tables in Las Vegas. See <i>Report of Violations of the 1994 [FTC] Order for Nu Skin to Stop Misrepresenting Earnings of Distributors . .</i>

<p>However, there are hundreds of thousands of others who continue to appreciate the opportunity to achieve their goals, whether they be earning a little extra pocket money each month or they seek the freedom to quit the traditional corporate world and own their own business.</p>	<p>Those who do “achieve their goals” do so at the expense of a multitude of unwitting downline victims. And the notion of a part-time income for Nu Skin’s highly leveraged compensation system is a huge misrepresentation, especially if all expenses are subtracted from revenues – for a net (loss) figure.</p>
<p>Background: Jon M. Taylor is a self-appointed crusader opposed to the network marketing industry, particularly Nu Skin Enterprises</p>	<p>No one appoints a genuine crusader to anything, much less a whistleblower. Does the writer expect that Nu Skin would appoint a crusader against its own program or against the MLM industry?</p>
<p>He has formed a non-profit corporation in Kaysville, Utah called the Consumer Awareness Institute. Dr. Taylor was an Interior Design Nutritionals (IDN, the precursor of Pharmanex) distributor for a short time. He claims to have been “very successful” during his year with Nu Skin. However, in the forward of one of his books he writes of changing from an “outspoken critic of network marketing to an enthusiastic convert” before his dream soured and his wife persuaded him to give up the pursuit of wealth.</p>	<p>My “conversion” and subsequent disillusionment is an important part my story. In fact, it would not have been possible to fully decipher the deceptions in the Nu Skin program without having at one time been a committed participant. It became apparent after having made it to the top 1% of all distributors, while receiving checks of only \$246 a month against expenses exceeding \$1500 a month, the “opportunity” was very different from what was represented. Extensive research showed that it was rare for anyone to make a profit. The more I researched the topic, the more my conclusions were confirmed.</p>
<p>Dr. Taylor is fond of acquiring public data about Nu Skin and then “torturing” it until it suits his purposes.</p>	<p>One attorney with years of MLM litigation experience laughed at the idea of my “torturing” the data. Who tortured the data? Nu Skin was given at least four opportunities to rebut my analyses with valid numbers. They failed to do so all four times.</p>
<p>He has challenged the way the company reports average distributor incomes – despite its being in the prescribed format required by the Federal Trade Commission</p>	<p>The “prescribed format” allowed by the FTC has been challenged in correspondence with Enforcement Division officials, who now have better format input. The FTC has been petitioned by numerous petitioners for better disclosure by MLMs. And if the format is “required by the FTC,” why did Nu Skin cease publishing the report – about the time I challenged its validity?</p>
<p>– as well as the structure of the network marketing model, the pricing of products, the ethics of the industry,</p>	<p>Read <i>The 5 Red Flags (cited above)</i>, and then evaluate the structure, product pricing, and ethics of the typical network marketing model. We see shades of Enron – except that it is small investors that are being stiffed by recruiting MLM’s like Nu Skin.</p>
<p>and even the company’s philanthropy.</p>	<p>There they go again on the philanthropy-credibility connection. Would anyone who read the <i>Report of Violations</i> still buy into that?</p>
<p>Dr. Taylor forgets that salespersons in any organization have the same motivation: to earn money. He labels that desire “greed” and condemns it in network marketing. In traditional businesses national sales managers motivate regional ones, who motivate district ones, who motivate the salesmen, etc. The same is true in retail where the store manager motivates the assistant store manager, who motivates the department managers, who motivate the salesmen because they all get bonuses from the sales of those below them in the organization.</p>	<p>It is safe to say that the writer of this statement (most likely someone on staff who has neither been a distributor nor a direct sales person) has not had a fraction of the sales and marketing experience I have had – nor a wall full of awards for successful performance. I know the difference between legitimate selling and a scam. See Section D-3 and Appendix D in the above-mentioned <i>Complaint of Violations</i> report – and my more extensive report on defining characteristics of recruiting MLM’s [op cit]. The latter makes a clear distinction between compensation systems in a recruiting MLM and legitimate retail or direct sales operations.</p>
<p>He says that network marketing companies claim distributors can make millions. Laws prohibit network marketing companies and distributors from making earnings claims. In Nu Skin, distributors are penalized or terminated if found violating this stricture.</p>	<p>The writer of this statement should attend some Nu Skin recruitment or opportunity meetings. And it would be good if while he was there he would open his eyes and ears to observe what goes on.</p>