



INTERDEPARTMENTAL MEMORANDUM

TO: Patric Sullivan

FROM: Ed Postma

DATE: January 10, 1983

SUBJECT: ANALYSIS OF THE BRITT/YAGER SYSTEM

There is no question that the system captioned is all inclusive. It is the only system utilized in the Amway business which attempts to give security to entrepreneurship. Although there are variations of this system dependent on the personality of the Diamonds involved, there are certain underlying principals which are used by all. Below are some of the methods of operation used by this system.

A. Relationships. When talking to Directs and Diamonds in this organization, it is often heard that they are in the process of developing friendships downline. Friendship-relationship is central to the building of the business in this line of sponsorship since it develops a good deal of loyalty and dependency to the line. Loyalty and dependency is the ultimate objective of the "system."

1. Relationships within the line of sponsorship. The line of sponsorship becomes involved in developing friendships as opposed to immediate business relationships. When a new distributor is sponsored to this line of sponsorship, the immediate upline Direct Distributor becomes acquainted with the individual. This is done in two ways; first, often times because of business-building techniques, the Direct Distributor will have been the individual who has shown the plan for the new distributor. The second method is that the Direct Distributor is consistently held up in "edification." This makes him someone who is to be trusted and emulated. There is constant reenforcement of this technique in training situations, or in rallies. In addition, it is taught in the line of sponsorship, that when a new Direct Distributor breaks, over 50% of his volume should be in one leg. It is patterned for a new distributor to be assured that his upline will help him to become a Direct Distributor. Technique used allows for upline Direct Distributors to work in one leg of this individual's group. They are consistently edifying the distributor whose organization they are building, however, relationships are being developed with the upline Directs. This is done to assure loyalty within the organization. Should a Direct Distributor break, and decide to do his own thing, relationships which have been developed upline would preclude any independence.

It is also customary for this line of sponsorship to consistently teach that the relationships in a line of sponsorship are sacred. Distributors are taught that they will not be able to build the business without the presence of an upline Diamond or an upline support structure. Inevitably, if Direct Distributors break off from this structure, their business begins to sag. In many cases, because they feel that they have violated the love and trust of the line of sponsorship, their businesses will ultimately disappear. We have had this occur at least three times in the Northwest in the last three years. So, while friendships are being developed, a dependency is also being created. It is this aspect of their methodology, that has allowed for charges of "mind control."

In all situations, within the line of sponsorship, distributors are taught that they are to do all that has been requested of them by their line of sponsorship. There is no room for individuality or creativity. They are taught consistently that there is no need for creativity, since the line of sponsorship has the answers for them. Decisions are made for distributors based on personality and the size of the business. However, as time goes on, a distributor finds himself more and more reliant upon the advice of the upline Direct, Emerald, or Diamond. In fact, after a Direct becomes a Diamond, he is still not free to act as he wishes. In the area of finances, a new Diamond in the Puryear organization recently confided that in order for him to buy a house, it was necessary for him to receive the approval of Ron Puryear and Bill Britt. Absolutely nothing is left to chance or creativity. There is always the chance of failure if someone is creative, and in order for their business to be credible, no failure is to be allowed.

2. Relationships with other lines of sponsorship. This section of the memorandum could be summarized in the word--NONE. Distributors are consistently advised to have absolutely no relationships with any other persons in the Amway business, with the exception of his upline organization. They may read no other material except that provided by their line of sponsorship. They may listen to no tape or receive any other information from any source, other than their line of sponsorship. If they wish to receive information from any other area, they are completely isolated by the line of sponsorship. The rationale given for this attitude is simply that there are no other successful lines of sponsorship in Amway. They are consistently taught that their line of sponsorship does two-thirds of the volume that Amway does annually. To assure that this sense of isolation is reenforced, the line of sponsorship has provided alternative sources of information so that the distributor organization is not dependant upon the corporation. It excludes from the sources of information any reference to any other line of sponsorship or any achiever in Amway. Although it may seem difficult for us to believe that people would acquiesce to this type of pressure, there is a great deal of insecurity present in the new distributor and his relationship to the business. In providing an organizational structure which gives security to the new distributor, and assuring him he need go no where else for information, this line of sponsorship effectively isolates its distributors from others.

1. Relationships with the corporation. For most new distributors, the corporation is a complete enigma. Although they have signed an application with the corporation contractually agreeing to abide by certain principals, the line of sponsorship does not allow communication between the distributor and the corporation. Since his source of information is consistently upline, there becomes no necessity for the individual to develop that relationship. Historically, this line of sponsorship has viewed the corporation as an impediment to their growth. Because of the fiercely independent nature of its distributors, Directs, and Diamonds, the corporation has become viewed as a hindrance. There is an insecurity about the way that the corporation deals with any challenges in the distributor organization. First of all, this organization does not feel that the company can understand the impact of building the business on a person. It is their feeling that no one at the company completely relates to their efforts in attempting to build the business and organization. This includes even Rich and Jay. It is their feeling that Rich and Jay do not have an understanding of what it takes to build the Amway business today. Second, this organization feels insecure about the direction the corporation is taking. There is a constant feeling of competition with the corporation. In addition, this organization, because of its structure method of doing business, looks at the corporation as a rudderless ship. Every time that the company comes out with a change in direction, they feel that this is confusing to their new distributors. As a result, they discourage their distributors from being involved in any corporation function or tape program. In addition, the corporation serves to signal other success in other lines of sponsorship. This system does not allow that success can be built any differently than in the method that they use.

It is also this organization's feeling that the corporation cannot show the love or concern that is required in building the business. This has to do with relationships. It is their feeling that only on a one-to-one basis or in the building of the business can this relationship be developed. They also feel that because of the size of the corporation effective communication cannot always take place. They would prefer that this communication be done between the company and Diamonds, since Directs may be yet susceptible to confusion. They also feel encumbered by corporation paper work. Their goal is to simplify the business as much as possible.

In the words of one Diamond from the Northwest, "The Corporation should manufacture products and get out of the way." This sums up the extent of the relationship that these Diamonds wish to have with the company. Although this is an extreme point of view for many of these distributors, this view is often times heard as they honestly believe that the corporation is in no way motivating. It has been my judgment on observations, that they do not do a better meeting than we do, nor can they provide the same type of motivation as we do. However, in attempting to convince the corporation to stay out of the motivation business, it allows them to do two things: first, it further isolates the business, second, it allows them to operate a motivation business with little or no competition. Another factor involved is that in some cases, people are trained to do the business in an improper manner. Having a corporation representative stop a

Direct from doing certain practices causes confusion in their organization and a breakdown in the trust relationship that has been developed. In evaluating the techniques that their business utilizes, it can be proven that their isolation from the corporation has actually caused them difficulty

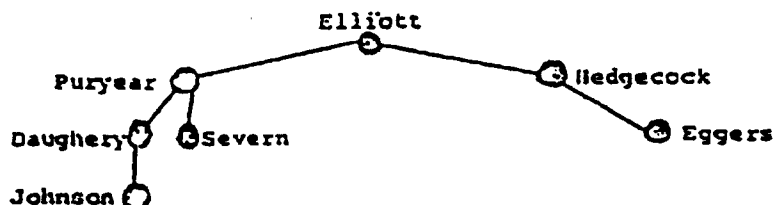
In some instances in this line of sponsorship's association with the company, where corrective matters have been taken, the measures taken often times caused animosity as opposed to understanding. This has also caused a strain in the relationship.

4. Summary paragraph. In the area of relationships, this organization has continually and consistently attempted to create an isolationist point of view with regards to all facets of the business. This isolationism is a present danger, since the loyalty and trust of the distributors and Directs lie with a few select individuals. As these select individuals go, so will go their business.

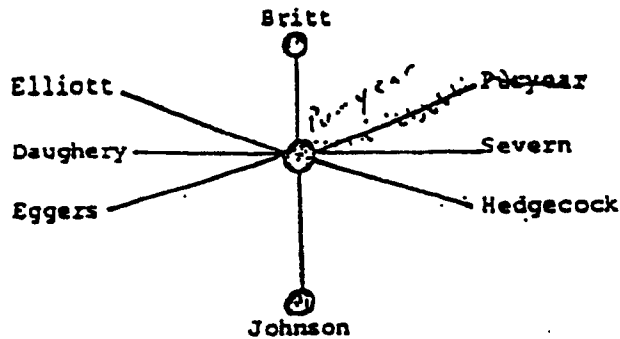
- B. Motivation. If there are any discussions of any length with the Diamonds utilizing this system, it becomes clear that although they realize that they are Amway distributors, they consider their personal business to be the motivation (tool) business. I think there is little question that that is where the big money is made. The motivation business is also, where their primary allegiance lies. When asked, a Diamond in this organization will tell you that he is in the motivation business and that his Amway business would be impossible without his motivation business. So, there is developed a peculiar relationship. The motivation business could not exist without the Amway business, yet in all seriousness, these Diamonds feel that the Amway business is impossible without the motivation business. It has been clearly stated to me by more than one Diamond in this group that if anything is done that negatively affects the tool business, they would leave the business. Their motivation business falls into five categories. Three of these categories are unrelated to the business itself.

1. Tapes and books. When we observe these motivation businesses, the first area that causes concern is the area of tapes and books. These products are sold through the line of sponsorship with little regard for Rule 4. As one example, I would like to diagram the World Wide Dream Builders in the Northwest.

Actual:



For tools:



Each of these Diamonds diagrammed deal with their downline Emeralds and Directs. It is well documented as to the inner workings of the tape business. However, each pin level gets a markup on the tapes with the largest given to the Direct Distributor. The reason for this is that the Direct becomes more involved in buy backs and inventory. In addition, because he is basically one legged, he is not profitable in his Amway business. So, at that level, the tool business subsidizes the Amway business.

2. Rallies. Although the corporation has decided that rallies are not products, this line of sponsorship believes that they are as a portion of the motivation business. A large portion of the money accumulated through the motivation business, comes from the rally system. Although Diamonds reap the largest percentage of profits, Emeralds begin to get a percentage of the gate receipts. In addition, Diamonds and Emeralds receive speaker fees at these functions. It is not uncommon for the profits on these functions to exceed \$25,000 to \$50,000 for a weekend or \$250,000 for a Free Enterprise night.

In addition, this is another area of entry into the Rule 4 violation. In all cases that distributors have become involved with other lines of sponsorship, it has been done through an invitation to a major function.

3. Accessories. This area of the motivation business is not recognized as that. However, in attendance at the major functions are vendors for other products to include jewelry, clothing, and automobiles. These accessories are made available to distributors so that they may appear successful. It is considered extremely important for Diamonds to show material success in the business. Although I cannot be certain, it would seem reasonable to assume that the individuals promoting the functions would receive a cut on everything sold there.
4. Counseling. Counseling is a non-profit area of the motivation business although it is an important one simply because relationships are developed. Counseling goes on continually with the upline also causing dependency. It is a portion of the motivation business because of the relationship of the counseling to decisions made in the motivation arena.

5. Moving up. Moving up in the Amway business is considered to be an important part of the motivation area of the business. It is important to demonstrate success as the system (not the Amway business) allows. In most cases, moving up is important, in the method designed by the system, as opposed to the willingness to work the business. If a Diamond sponsors a Diamond, that second Diamond should not go Double until the first does. To do so is caused by ego as opposed to a desire to help others. It also causes anxiety with relation to the tool business. Although a formula has been developed so that Diamonds in depth get their fair share, there is some concern about Double Diamonds in depth.

SUMMARY

There is a major economic force at work with the tool business. Anything that is done by the corporation that will cause conflict or competition with this business could cause a major split. This business will crumble under its own weight for the following reasons.

1. Rights of the Directs. People are becoming more sophisticated about the Amway business. A lot of this sophistication has to do with the fact that Amway is no longer a "closet" business. A lot of people have heard of it and have talked about it. The biggest fear that Diamonds have in this system is that Directs will take Rich's speeches seriously, become "little Napoleon," and cut off their ability to move the motivation business downline. This has happened in some cases already and could happen many more times.
2. Greed. A continuing promise to all Directs in this system is that they will do as well (financially) or better than Diamonds in the system today. This may not always be possible. There have already been challenges with Diamonds in depth, and now Double Diamonds are going to break, which will further break up the continuity of the system. If someone elected to do so, he could go off and do his own thing without the line of sponsorship. The loyalty, trust, and love would already be built. Ego could destroy the traditional system. The system has encouraged "sponsoring up" so much that in many cases, the downline leader is smarter, more ambitious, and more ego bound than the upline.
3. The tool business (motivation) is illegal. If I understand the MLM system, there are certain parameters that confirm its legality. Unlike the Kosco method of marketing, the MLM system moves a product to an ultimate consumer outside of the business structure; i.e., a customer. Although the Amway business is legal (no question), the tool business is not (my conclusion).
 - a. It is a pyramid. It sells only to those who are involved in its structure.

- b. It may violate tax laws. It is hard to determine whether or not proper sales taxes are paid (especially in the state of Washington).
- c. A real danger of inventory loading without the protection of a buy back rule exists. This has already occurred (Hackey). It will happen again.
- d. It could be construed as an employer/employee relationship.
- e. It is not a free enterprise opportunity. A downline Direct is not to compete with an upline Diamond.

The motivation business is getting larger than expected. None of the major participants really wishes to deal with it in a detail sense. With proper prodding, this business will fail.