

MLM's: LuLaRoe

Let's talk about a couple people. **DeAnne Stidham** and her husband **Mark Stidham**. DeAnne was a mother to seven children and had an eye for fashion, but wanted to spend more time at home with her kids, rather than working your typical 9-5. Her family, all based in LDS faith, can trace its lineage back to one of Joseph Smith's brothers. She had tons of success marketing end-of-season clothes to her friends and family, and a background in network-based marketing. DeAnne has 10 siblings, including a twin sister named Dianne who has her own direct selling clothing company. She was then discovered by wholesalers who picked up on her taste and potential, which gave her the capacity and the drive to launch her own clothing line: **LuLaRoe**.

Named after her first three granddaughters; Lucy, Lola, and Monroe. Stidham's business model is directly intended to benefit women just like her - stay at home moms and those who wish to be. LuLaRoe is described as an 'exclusive clothing line', and argues that it does not sell to retailers in order to encourage women to run their own businesses. Because of this, LuLaRoe has thousands of independent 'consultants', each of whom operate their businesses independently. Interestingly enough, a disproportionate amount of MLM's are started or run by Mormons. They were all about female empowerment.

Pitch: "What does your dream home look like?" or "What schools do you envision your children attending?" "Where else can you make \$50,000 to \$100,000 yearly, working part time?"

MLMS:

By definition, multilevel marketing companies are pyramid-shaped, with a few people at the top level, some in the middle, and the majority toiling at the bottom. This kind of hierarchical structure is legal as long as the company's main goal is to sell a product; it becomes a scam when the goal is to lure people into buying inventory regardless of whether they can sell it. There are state laws against pyramid schemes, but at the national level the job of spotting them falls to the U.S. Federal Trade Commission. It primarily does this by checking to see if a company abides by a standard established in the wake of a 1972 lawsuit against a now defunct beauty products company called Koscot. The Koscot standard, as it's known, says that while a company

can compensate people for recruiting new sellers, it can't base that compensation on how much inventory the recruits buy. Most state laws, including California's, also require compensation plans to be based on sales. LuLaRoe didn't follow this rule for the first four years of its existence, instead basing its bonuses on wholesale orders. For a while it apparently neglected to track what types of clothing actually sold.

So each of these consultants has to front up to \$6,000, but some pay up to \$9,000 to start their business, because they are treated like independent boutique owners. For comparison, Mary Kay offers a \$100 makeup starter kit. There is a variety of styles offered by LuLaRoe, such as a pencil skirt, a free-flowing top, a knee-length skater dress and of course, their extremely popular leggings. All of these pieces of clothing are only made around 2,500 times in each print, so once they run out, they run out. It's not uncommon to find listings for 'unicorn' LuLaRoe leggings on Ebay which run for double or triple their original prices. These pieces of clothing are manufactured in Asian and Central American Factories via MyDyer, an LA based apparel company that also produces for other retailers like urban outfitters and North Face. LLR consultants couldn't choose what patterns they'd get, and starting inventory packages cost thousands of dollars.

LuLaRoe's army had four tiers: regular consultants, trainers, coaches, and, at the top, mentors. There were different wholesale, retail, and recruitment requirements for each. Additional caveats and rules made things even more complicated. A coach with four trainers working underneath her, for example, would get a larger bonus than one who had just three. "You sign people up in a way to move up the fastest," says Blevins. "It's called stacking."

LuLaRoe is a multi-level marketing distributor of brightly colored and super soft leggings, tops, and dresses. These are mostly sold via pop-up parties or social media live streams. They were first incorporated on May 1st, 2013. DeAnne is LDS, and her idea behind LuLaRoe was to sell comfortable yet modest clothing. In 2014, LuLaRoe added skirts and dresses to its product line. In mid-2014, LuLaRoe introduced a line of leggings, which would go on to become LuLaRoe's most prominent product. With 23 employees and 750 distributors, the company did \$9.8 million in sales. By July 2015, the firm had 2,000 distributors. In an August 2016 interview, LuLaRoe's CEO Mark Stidham

claimed that the firm was on track to exceed US\$1 billion in sales, and that LuLaRoe had 26,000 distributors and was shipping approximately 350,000 units a day. By April 2017, LuLaRoe had more than 80,000 distributors.

Each pop-up shop on Facebook or other social media has a LuLaRoe consultant, and a 'hostess'. The hostess is responsible for inviting friends to their online party. At some parties, the hostess can earn a free pair of leggings for every 10 items they sell, and can earn pricier items with more sales. They also have a social component, featuring giveaways and icebreakers that encourage LLR enthusiasts to interact with each other via facebook.

The Problems

In late 2016, LuLaRoe began receiving many reports from customers that their leggings ripped and developed holes easily, in some cases shortly after being worn for the first time. In January of 2017, the BBB downgraded the company's rating to an F in response to the company's failure to address complaints, as well as for issues with charging sales tax in places that do not levy sales tax on clothes. By March 2017, a class-action lawsuit was filed against the company by a group of customers. By April 2017, LuLaRoe implemented new policies to make it easier for customers and distributors to receive refunds on defective merchandise. The BBB rating was still an F as of May 2017.

In August 2017, multiple distributors (or consultants) complained on social media that they had still not received the refunds promised to them by LuLaRoe. By September, LLR abruptly ended the changes to its return policy, which they described as a 'waiver.' Distributors now receive only 90% of cost and pay for shipping and handling, along with other stricter stipulations.

As of May 2021, LuLaRoe still has an F rating with the BBB.

Legal Issues

In October of 2017, a class-action lawsuit was filed in CA, accusing LLR of being a pyramid scheme. Plaintiffs in the suit allege the company engaged in 'misconduct, including unfair business practices, misleading advertising, and breach of contract.' According to the \$1B lawsuit, which LLR argues is baseless and inaccurate, the company allegedly **advised its distributors to borrow**

money, take out credit cards, and some were even asked to sell their breast milk as ways to buy additional inventory.

In January of 2018, the National Down Syndrome Society ended its relationship with LLR after a top distributor mocked people with mental disabilities during a livestream sale. The NDSS requested that LLR cut ties with that distributor, but LLR declined saying they accepted their apology.

In December of 2018, LLR was sued by its chief clothing supplier, Providence Industries, for nearly \$49M. The lawsuit claimed that LLR was not paying its bills for seven months, and accused founders Mark and DeAnne Stidham of hiding assets in 'shell' companies to fund their 'lavish lifestyle' and to hinder, delay and defraud the creditors.

In January 2019, the Washington state attorney general's office filed a lawsuit against LLR, as well as CEO Mark Stidham and president DeAnne, alleging that the multilevel marketing company is an illegal pyramid scheme, making misleading income claims, and encouraging its consultants to focus more on recruitment than selling clothes to customers. In addition, Providence Industries filed another lawsuit demanding a seizure of assets. In February of 2019, the business received another F rating from the BBB. In October of 2019, LLR closed its distribution center in Corona CA, relocating it to South Carolina, and laying off 167 people.

In February 2021, LLR agreed to pay \$4.74M to settle the Washington lawsuit. LLR denied wrongdoing. The settlement prohibits the company from operating a pyramid scheme and also requires it to publish accurate income disclosures, among other measures to improve transparency.

So now what?

Thousands of women that were distributors/consultants for LLR ran for the hills when these lawsuits became public. Many say the company owes them millions of dollars in promised refunds. Women have garages, closets, guest rooms, and in one case a farm shed, filled with LLR clothes that they can't sell. Apparently they had a rule that you could sell back product that you couldn't sell if you wanted out of the company, but that doesn't seem to be the case now.

DISCLOSURE STATEMENT:

“LuLaRoe does not guarantee or represent, directly or indirectly, that you will derive any income as a Retailer. To the extent any income, which could include sales, earnings, profits, commissions, bonuses, compensation, or any other similar item, is discussed by LuLaRoe or by Retailers recognized by LuLaRoe, such discussion represents exceptional results and does not represent, and should not be interpreted as, typical income of Retailers. You should not expect to achieve similar results.”