Recovering from Poor Hiring Decisions: A Case in Direct Sales

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The focus of the case is on making recommendations regarding staffing and sales force problems that plagued a start-up direct sales company. Within three months of founding a jewelry business, the owners of the company were encountering numerous problems with their staff and their sales force in terms of integrity, morale, and motivation. Of particular interest here is the difference in employee and independent contractor status of sales people and staff, which creates problems for the owners in terms of management and oversight. It also deals with the issues associated with finding out that a person who exerts a negative or unethical influence in the company that effectively poisons many others, and, how that issue can be properly (or improperly, as the case may be) handled.

This case demonstrates three typical problems that often plague small businesses. First, small business owners face personnel management challenges in the course of their operations. Usually relying on friends and acquaintances to get a company off the ground, they are often blinded to the weaknesses of their hiring decisions until those decisions have wreaked havoc on the operation, often causing irreparable damage. Second, most small businesses do not normally have policies prohibiting in-office romances, but perhaps they should. Those relationships can ultimately develop, and when they do they can cause serious problems for the owners and for the business operation. Third and finally, it is often the case that a small business owner who is desperate for cash flow will compromise their principles in exchange for immediate results. The business examined in this case shows us why that type of flexibility is neither desirable nor profitable. Turning a blind eye to rules and policy infractions costs a great deal of owner time and attention in the long run, plus it also lowers the morale of those who are trying to follow the rules.

This case is suitable for analysis by undergraduate students in human resources management and also students of entrepreneurship with a focus on the mistakes that can be made very early on in the structure and culture of an organization. The situation described is based on actual events, although the product line, dates, and names have been changed to protect their identity.

COMPANY INFORMATION AND BACKGROUND

Lexi Lewis and Samantha Chandler are the co-founders of CharmedALot, a start-up jewelry business in Wyoming. The company launched August 1, 2011, with 22 independent distributors—hereafter referred to as “designers”-- who signed on to the ground floor opportunity.

It soon became apparent that some staffing decisions were backfiring on the owners, but, they felt stuck in terms of how to deal with them. This stuck feeling was in part because of lack of experience, and in part because the problem was complex and deep rooted from the beginning. The owners needed to find a way to continue motivating their sales force while also getting their behavior and business practices in line with the image the company wanted to project in the direct sales industry.

HISTORY AND OWNERS

Lexi Lewis, a young woman in her late 20’s, had a vision in 2010 for a design-your-own-jewelry business. After finishing her college degree in fashion merchandising, and, operating a small retail shop, she had decided that a design-your-own jewelry party concept would be both popular and profitable. With some financial backing from a family member, she began a small start-up enterprise called “Bracelet
Factory,” which offered in-home parties where guests could design their own bracelets by selecting from several hundred charms and pendants. The workers at the party then assembled the jewelry while the customers waited. Her parties were well-attended and her calendar stayed fully booked. She realized she was on to something that had real potential for future growth. She dreamed big, and envisioned a national company that captured the jewelry market by storm.

Realizing that she needed a partner with a business background, she soon brought in Samantha, an acquaintance she had known for several years. Samantha was a college professor in business who enjoyed amateur jewelry design and other types of art. When Lexi approached her about the business concept, Samantha couldn’t resist. As soon as they started brainstorming about the operation, Samantha realized just how bored she was with academia, and what was initially supposed to be “just an investment” became a passionate undertaking for her.

The two began by contributing $10,000 each to the business, and, working out of their homes to plan and make decisions. They each had a 50% ownership in the business as equal partners, and to protect themselves from unlimited personal liability they formed a Limited Liability Corporation (LLC) in Wyoming. The advantages of an LLC for small businesses are well-documented, most notably that they offer considerable flexibility and informality, while also protecting the owners from the unlimited personal liability associated with a regular partnership (Weiner, 1993). As a plus, the two owners almost always agreed on everything, and, when they did not agree, could amicably reach a compromise 99.9% of the time. This made for a very smooth and enjoyable business relationship.

CRITICAL DECISIONS AND ROLES

Lexi took the title of CEO, as she was the visionary and had the eye for fashion. Samantha worked on the more technical and legal side of the business as Chief Operating & Financial Officer. They each took a stab at crafting a business plan, but in the end their ideas just weren’t far enough along to really make sense yet. While the business plan would eventually come, it just wasn’t “there” yet at this stage of the game.

Although most friends and family were quite supportive of their decision to launch a business, others discouraged them from trying to do so in one of the worst economic downturns in history. The objections of friends and family helped them realize that as they planned their company, they should make it appealing to everyone—even those affected by an economic recession. They began by analyzing the jewelry industry, which has two major market segments:

- Fine jewelry, made of precious metals such as gold, silver, or platinum, or, combinations of those metals. This jewelry may also include precious or semi-precious stones, and, is divided into two categories:
  - Precious metal jewelry: items such as necklaces, bracelets and rings.
  - Precious metal accessories: brooches and pins, encrusted wallets and cases, watches and bands, cuff links and other accessories.

- Fashion or Costume jewelry: jewelry made of metal alloys or other non-precious metals and coatings, or, that contain very small amounts of precious metals (Shim, 2011).

During recessionary times, consumers will reduce spending on the luxury items known as fine jewelry, but they will generally continue to spend money on costume jewelry as it serves as affordable substitute (Shim, 2011). This led the women to conclude that affordable, costume jewelry was the best type of product to focus on in the company.
The next major decision they had to make was how to distribute their products. Lexi, with some retail experience, knew that getting into the fashion market and selling the concept to retailers would be expensive and time consuming. It would involve money they didn’t have, and, it would take so much time to get there that someone with more backing and capital would surely take their great idea and beat them to market. They needed to launch quickly, and with the bare minimum investment possible.

Realizing that the parties Lexi had thrown with Bracelet Factory were really successful, the women decided to keep focusing on distributing the products in a party environment. This led to one logical choice of distribution channels: direct sales (also sometimes called network marketing).

The next phase of their market was to identify all the direct sellers of jewelry in existence at the time. Samantha worked to find out about all the companies that she could, and solicited brochures and information about each one. It seemed that no one had developed the concept that Lexi had. All the jewelry direct sellers were focused one of three major product lines: high-end sterling silver jewelry, mid-priced items often with personalization or customization that could only be offered through a special-order type arrangement, and, budget-priced “fashion” jewelry that was ready-to-wear and did not offer personalization options. The women concluded that there simply was not a company that offered what they proposed to offer: a build-your-own jewelry design experience in a party setting that was both fun and affordable.

To gain more experience and familiarity with what the independent distributor role would look and feel like, they joined two of the direct sales companies that had low-priced starter kits. The women devoured each package, taking photographs, noting what was desirable and what was not, and, paying careful attention to the legal documents and rules communicated by each company.

In general, they set out to learn as much as they possibly could about the direct selling industry. With some of their very limited investment capital, they hired Bob Whipple, a seasoned veteran in the direct selling industry. Bob gave them guidance and advice along the way as they created their company.

THE DIRECT SELLING INDUSTRY

Direct selling is defined as face-to-face selling away from a fixed retail location (Peterson and Wotruba, 2001) The Direct Selling Association (www.DSA.org) is the industry’s trade association, and, its members include seasoned veteran companies including Avon, Tupperware, and Mary Kay, plus relatively new companies started within the past decade that include Thirty One, Perfectly Posh, and Initials, Inc. Direct selling is currently outpacing the U.S. economy in terms of growth, and, is almost a $30 billion industry (Direct Selling, 2012).

In direct selling, the company allows independent contractors or distributors to sell its products. These distributors are compensated not by salary but by commission on products sold. Direct selling offers several advantages, including flexibility in terms of the time sales are made and the location where they are made, and it allows the consumer to have a face-to-face interaction with the seller and the products, thus utilizing all communication senses. It also affords for a thoroughly-customized sales presentation targeted to a particular buyer, and it is a perfect example of “relationship marketing” (Petersen and Wotruba, 2001). The flow of products to the customer through a direct selling company is illustrated in Figure 1.

The DSA further categorizes direct sellers as either person-to-person or party plan. Person-to-person has historically been called multilevel marketing (MLM). The fundamental difference between the two is that party plan companies tend to focus the distribution of products around parties where the party host can earn free gifts and incentives. Customers come to the host’s home or office, or they may even
participate in what’s known as a catalog or online party where orders are taken without an actual party event being held. These products are also very good sellers at fairs, shows and bazaars, especially if the distributor stocks a cash-and-carry inventory. Many party plan distributors do not stock an inventory, but instead display sample items and then accept orders for the pieces customers wish to purchase. Most party plan companies do not require the stocking of inventory. Party plan companies often distribute goods that are not every day or routine purchases, such as purses, cookware, and lingerie. These items, as special treats for the purchaser, are more conducive to a party or special occasion atmosphere.

**Figure 1: The Relationship Between the Company, The Distributor and the Customers**

MLM companies tend to focus more on the building of a sales team, and rarely sponsor or encourage parties. They may be displayed or marketed at fairs and shows, but, they normally do not stock inventories for cash-and-carry sales. MLMs tend to distribute more mundane products such as household cleaners, vitamins, and necessary services such as phone service and life insurance.

**ADVANTAGES OF DIRECT SELLING**

Direct selling offers a distinct financial advantage to a company with limited cash available. Direct selling uses independent as product distributors (sometimes called “demonstrators” or “Designers” or other titles). These distributors are paid on commission, so the company only pays compensation when actual sales are made. is considered to be ideal for people who want to:

- Own their own business
- Make a relatively small cash outlay to begin their business operation
- Set their own goals and objectives for income
- Meet and socialize with other people
- Have a flexible schedule

There are two main activities of distributors in direct sales: selling the products and recruiting others to become a part of their sales team. Any one distributor may recruit any number of people to sell under them. Those recruits will in turn likely build their own teams, although some people do not wish to engage in the building of a sales team and will instead focus solely on selling the products.
Figure 2 shows an example of a sales team in direct sales. The direct selling industry likes to use the term *genealogy* for the structure of the sales force because it resembles a family tree. Generally, each level of the hierarchy’s sales will generate at least a small commission for the sponsor immediately above it. In this illustration, we would expect Art to receive commissions off of the sales of everyone in his downline.

Figure 2: *Direct Sales Force Structure*

The start-up costs for a direct sales company are much lower than for starting up a company that will distribute product through retailers. There are two main reasons for the lesser cost of starting a direct sales company: the cash inflow from the distributors who sell the company’s products, and, the reduced cost of staffing. One of the most unique aspects of direct selling is the fact that the sales force consists entirely of independent contractors who purchase a business kit to begin selling the company’s wares. Thus, cash flows into the company fairly early on in its life cycle.

Because the sales force consists of independent contractors, the company has little control over what they do, but, also has little commitment in terms of expenses for compensation and benefits. In an independent contractor relationship, the company can set certain guidelines and parameters for the conduct of the designers, but they otherwise cannot control how or when the designer sells the products. The company also cannot require daily or weekly sales quotas, and usually is quite liberal in what is required to maintain an active designership with the company.

Designers cannot be required to participate in training, have any particular level of education or continuing education, and as a general rule the application process to become a direct sales distributor for most companies is very simple and requires no background check or personal information other than a Social Security number and basic contact and demographic data. To best summarize an independent contractor’s status, the Internal Revenue Service notes the following:

> “The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done”

In exchange for the lack of control over the sales team, the company is also free from the traditional responsibilities of hiring employees. The independent contractor relationship precludes payroll taxes, income tax withholding, Social Security withholding, workers compensation insurance, benefits, office space, company cars, and other costs of staffing. This is one of the main reasons the start-up cost of a direct sales company is so much lower than that of a retail-based company with a full-time sales force that operates at the demand of the company.

Because they only had $20,000 capital to start their company with, Samantha and Lexi decided to go with the direct selling approach for their business. Given the recessionary economy, they wanted to offer a line of jewelry that most women could afford. These lower-dollar purchases would generally not be conducive to the high cost of printing catalogs or placing advance and would more likely be impulse buys. Thus, they chose the party plan model and structured the business to require the stocking of at least a certain amount of inventory by each designer.

**CONCERNS ABOUT DIRECT SELLING**

While direct selling is legal, this distribution channel can often run afoul of the law by becoming or at least resembling an illegal pyramid scheme. This was Samantha’s main objection to the direct sales structure in the beginning.

Vander Nat and Keep (2002) highlight the important differences between legitimate MLMs and pyramid schemes, which is also a point of concerted interest on the part of the Federal Trade Commission. The key difference is illustrated by what is known as the Koscot test (*FTC v. Koscot 1975*). *Koscot* states that a pyramid is one in which participants pay money to sell a product and they also get the right to receive rewards for recruiting others that are unrelated to the sale of actual products to ultimate users. In the 1990’s several court rulings affirmed *Koscot* and ultimately the courts determined that the earning of recruitment rewards unrelated to the sale of products to end users was the *sine qua non* for pyramid determination (Vander Nat and Keep, 2002). When structuring the company’s compensation plan and policies and procedures, Samantha was careful to make sure that selling jewelry alone could generate an attractive income, and, that recruiting designers to build a sales team was in no way rewarded except when actual products were sold.

Other concerns about the direct selling industry were high pressure sales and recruiting tactics, the failure rate of so many direct sales distributors, and the fact that many companies force distributors to purchase large quantities of inventory that ultimately the distributor cannot sell and gets stuck with. Upon Lexi’s agreement, Samantha authored a business plan draft that emphasized certain core values and beliefs the company would observe that would hopefully avoid or at least minimize these negativities. This led to the creation of a set of corporate policies in a Designer Policies and Procedures Guide (hereafter referred to as “the Guide”) that would hopefully prevent the worst practices associated with direct sales from occurring at CharmedALot.

For example, the company offered an inventory buy-back policy (at 95% of the purchase price paid) to assure designers that the company would stand behind its merchandise in the event it didn’t sell as expected. Further, the upline commission on any such returns would also be docked accordingly to avoid high-pressure sales tactics on the part of recruiting designers. Selected excerpts from the Guide are included in Appendix A.

Samantha also knew that unethical business practices on the part of independent contractor sales people could ultimately translate into a loss of customers (Chonko, et. al., 2002). A Code of Designer Conduct was established and communicated to all designers from the time they joined the company and its importance was emphasized, especially with respect to business ethics and integrity. While the Code
was no substitute for reading the Guide, it did provide designers with a simple list of do’s and don’ts that, if followed, would result in overall compliance with the Guide’s terms and conditions. The Code can be seen in Appendix B.

One important provision in the Guide was a noncompete clause. The owners felt strongly that their designers should not sell other lines of jewelry. The owners felt that selling a competing line of jewelry products would create an inherent conflict of interest for the designer, and, could ultimately cause confusion for consumers who might mistake someone else’s product for a CharmedALot piece. Bob, the consultant who reviewed their designer code of conduct and policies and procedures manual, assured them that such a clause was common and enforceable, even though the courts traditionally frown upon such agreements in regular employment contracts (Garrison and Wendt, 2008).

THE TEAM & THE OFFICE

Lexi and Samantha would both play major roles in the organization’s day-to-day operations, but felt that an additional person was needed to oversee and manage the designer sales force. A friend, Delia Crosby, was selected for this role. Delia had worked with Lexi on the Bracelet Factory, and prior to that had over 20 years of experience in retail operations with a national jewelry retailer. Delia did not have any experience in direct sales. But, Lexi felt that since Delia had been a good friend and was in search of a new career after being a stay-at-home mom, that it would be a good decision to hire her.

Delia was hired as an independent contractor and promised 5% of monthly revenues in exchange for serving as the downline director/sales force manager who would recruit, train, and oversee the independent designer sales force. She was assured upon hiring that she could work from home as long as her tasks were performed and her job completed. Unfortunately, as the entrepreneurs soon learned, not having a written job description with a clearly defined list of duties for Delia to fulfill each week would result in serious problems. In spite of Samantha’s business background and training, neither she nor Lexi felt it necessary to draw up a carefully worded employment contract with Delia, given that she was a long-time friend.

The company then hired Rita to work part-time for $10 an hour to help with product assembly and other miscellaneous tasks as needed. Her position description and responsibilities were also not put in writing. Rita was 21 years old and a full-time college student. She also had worked at Bracelet Factory and Lexi had always been pleased with the work she performed and her overall demeanor and personality. Rita and Delia also got along well so it seemed like a logical fit for her to be a part of the team.

The women then hired a bookkeeper, Rodney. He was a former president of the local Chamber of Commerce. Also, his wife had signed up to become one of their first designers, so it seemed like he was invested in the success of the company and a good fit for their needs. He agreed to charge $25 an hour, instead of the usual hourly rate of $50 for most other bookkeepers in town.

One major issue the team had was finding a place to house inventory and work space. Lexi and Samantha did not have adequate space in their homes for the entire operation. Meanwhile, Delia had a large unused space upstairs in her home that would allow for storage of the products. She and her husband volunteered to let CharmedALot use the space rent-free and without any responsibility for monthly utility bills. Lexi and Samantha really felt that was the only viable option since the rest of their capital investment needed to go towards building inventory, and, creating the business kits that would be distributed to the first designers who joined the company.
PRE-LAUNCH

STRUCTURE

Having agreed on a direct sales model with a sales force of independent contractor designers, the two women set out to market the CharmedALot business opportunity to all their friends and relatives. To explain how the business model was structured, the women designed a Power Point presentation and hosted informational meetings. They showed the participants Figure 3 to clearly delineate the relationship and to emphasize that the company did have a solid business plan in place and a well-defined structure.

Figure 3: Contractual Relationship between Company and Designers

THE SIGN-UPS

The initial cost to become a designer was $499. This fee included $1,250 of retail inventory, plus a retail display supplies, sales receipts, and other essential business supplies that a designer would need to get his/her business off the ground. The kit came with a 30 day money-back guarantee, and, the company agreed to buy back unwanted inventory at 95% of original purchase price if a designer decided to leave the company.

PREPARING FOR LAUNCH

Twenty-two (22) people signed up to become designers, and they were promised their business kits on or before August 1. Lexi, Delia and Rita worked during July to prepare inventory and arrange the business kits for the designers. Samantha’s stayed busy crafting corporate documents such as the the Designer Policies and Procedures guide and the Code of Consultant Ethics.

In direct sales the key to growth and success is the recruitment of new designers, who should in turn recruit new designers, and so on and so on. That was, in the case of CharmedALot, supposed to begin with Delia as the sales force director. As most people do in sales, she began by recruiting some of her friends, like Raegan and Zoe. Raegan and Zoe helped with business kit preparations at Delia’s house, and were compensated in food, drinks, and even on occasion free inventory items that Lexi voluntarily provided to them.

THE GOOD TIMES

The start-up was just plain fun for everyone. The women often commented on how much fun it was to work together, and, how promising the future seemed for them. Many felt it wasn’t really even like work, but rather just a bunch of friends getting together to talk and chat while getting something accomplished. No one appreciated this more than Samantha, a student of the benefits of positive corporate culture. Sadri and Lees (2001) established that a positive corporate culture resulted in a competitive advantage for the company. In her mind, happy and comfortable employees were a critical component for success. It seemed they were off to a good start in this regard.
When Lexi would go over to Delia’s house each day to work on the inventory, fill orders, etc., she would often find Rodney and Rita there. Rita was ultimately turning in those hours (as many as ten or twelve per day) for compensation at $10 an hour, although Lexi really didn’t know how much she was actually working. Delia was, almost daily, serving them breakfast, snacks and smoothies, and even cocktails. Within about two weeks, they had moved all their daily work tasks out of the upstairs warehouse area and downstairs near the big screen television.

Because Rita was being paid by the hour, Lexi felt it was inappropriate for her to be engaging in these activities while on the clock. But, since everyone else was an independent contractor, it was difficult to insist that Rita work upstairs alone in the dedicated warehouse area. Lexi did not want to rock the boat and felt that as long as work was getting done, she should probably relax and not dwell on the issue.

Even though Delia had no reason to report to him or share information with him, she and Rodney spent an inordinate amount of time together. Although both were married, they were often seen very physically close to one another when they didn’t realize anyone else was watching. For instance, one afternoon Lexi walked in unannounced to find Rodney and Delia in the kitchen. Rodney was rubbing Delia’s shoulders, but as soon as Lexi made her presence known, the two separated abruptly. Samantha and Lexi soon agreed that it was highly probably Delia and Rodney were involved romantically.

The possibility of their sales director being in an intimate relationship with the bookkeeper when both of them were married to other people was initially a concern for the owners. But, they felt they were not in a position to make demands of the man who held all their financial information, nor the independent contractor who stored all their inventory in her house on a rent-free basis. Plus, everyone was happy enough and the goal of having a positive and encouraging environment for the company was always kept in mind by the Lexi and Samantha. They decided to adopt a sort of “don’t ask, don’t tell” policy where these two were concerned, and stayed focused on the business at hand.

**THE LAUNCH**

The business launched on August 1 without any major problems. The 22 founding designers got their sales kits and quickly began marketing the products. Several of them were eager to begin recruiting new designers. Raegan and Zoe were two of the most successful at that task. Raegan was, as mentioned previously, a close friend of Delia’s. And, although Delia had not known Zoe before the company launch, Lexi did find Zoe visiting with Delia and sharing in cocktails on several occasions.

At first, Delia seemed eager to enforce the Code of Designer Conduct. Yet, reports of designers violating its terms quickly began pouring in from other designers, and, indirectly through unhappy customers who felt they had been misled by some of the designers. Most of these complaints involved Raegan, along with her first recruited designer, Wanda. Zoe’s name was also mentioned frequently in these complaints, and she was rumored to be selling other lines of jewelry in direct violation of her contract with CharmedALot. No proof was found of this early on, but, the rumors flew and Delia assured Lexi and Samantha that she was keeping an eye on the situation and had it under control.

**THE HONEYMOON IS OVER!**

Lexi was beyond frustrated with Delia within weeks after the launch. In addition to not appearing to have any control over the conduct of the designers, she did not produce or distribute any kind of training materials to help new designers succeed and learn their products and the business itself. Her record keeping skills were disappointing, as designer contracts and other important documents were often misplaced. Some of the designers reported to Samantha that they would try to reach Delia for assistance with various issues and she would not return their calls.
It soon appeared that Delia was primarily socializing with Rodney and Rita, and then dabbling in a few of her job responsibilities when it suited her. Both Lexi and Samantha were starting to wonder if they had made a bad decision in choosing Delia to oversee the sales force. They agreed that they had probably not been clear enough in outlining their expectations for her, and, so they tried to make it clear to Delia that they needed certain information, and reports, and projects completed, each week. Although she would promise to complete those items, they never seemed to get done.

Just four weeks after the company had launched, Delia announced she was taking a two-week vacation with her husband to Ohio to visit relatives. She said she would still be working while she was away, but that she would not have internet access and could not be reached by e-mail. The owners admittedly didn’t know what work she could or would do there, but felt they had no right to disagree with her, again, because she was an independent contractor who did not have regular required work hours. Meanwhile, they knew she would expect her full 5% of sales that took place in her absence.

Samantha and Lexi became extremely worried when, as her vacation departure date approached, Delia refused to give them a phone number where she could be reached. She indicated that the trip was “family time” and that she should not be disturbed. But then Delia informed Lexi that she would not give her a key to the house where the inventory was. Instead, Rita would be house sitting for her and could let Lexi in anytime she needed access.

It should be noted that at this point the inventory had grown, mostly through a lot of hard work and sweat equity and labor on Lexi’s part, to over $50,000 in wholesale value. The realization that all of it was in a house Lexi couldn’t access without the permission of one of her own employees was troubling to say the least.

Lexi suggested to Samantha that it was time to start trying to find a new location for their office and warehouse space. Samantha wasn’t too sure that was necessary until the day she spoke to Delia about possibly moving at some point. When she told Delia that they would eventually need to relocate to a more permanent and “professional” location, Delia replied, “If you move the inventory out, what job security do I have?” Samantha immediately agreed with Lexi that it was time to move, and move quickly.

As if there weren’t enough problems, Rodney was showing signs of distress and upset about Delia’s two weeks away with her husband. He was moody, upset and had a quick temper with everyone. Lexi and Samantha feared that at some point there might even be some sort of altercation between Rodney and Delia’s husband. That was the least troubling of the scenarios, though. “What if Delia’s husband throws her out... and then changes the locks on the door and we can’t get our inventory?” said Lexi. Samantha replied, “What if her husband blames us for Delia and Rodney being together and he throws our $50,000 of inventory out with his regular garbage?” The scenarios they kept coming up with always seemed to involve someone changing the locks on the door of the house and/or denying them access to the inventory, or, intentionally destroying the inventory. None of those scenarios allowed either owner to get much sleep at night.

At one point during this time, Samantha curiously asked Lexi why Delia left a retail career. Being inexperienced at hiring and staffing, it really never occurred to her to ask about this previously. Lexi said Delia told her she was fired from the retail jewelry store chain for “speaking [her] mind.” Samantha said, “Did you check her references with the jewelry store?” They both realized it was far too late to do so.

While Delia was on her trip, Lexi found a small office space that would accommodate their needs. It was affordable and conveniently located. Lexi showed it to Samantha, who instantly approved of it. They signed the lease and made arrangements to get the inventory moved as soon as Delia returned from her
trip. As soon as Delia returned from her vacation, the ladies thanked her for her hospitality, and said they have overstayed their welcome. They told her it was time to move to a more permanent location for their business.

Delia showed visible signs of anger after hearing about the move, but never came out and said anything specific regarding their decision to move out of her house. While she did continue to draw her 5% of gross revenues as compensation for her job, she did less and less as the weeks passed. She found reason after reason not to visit or work at the new location. She showed little to no sign of doing any work for the company after the move. Although she received work assignments and said she completed them, they either couldn’t be found, or, they seemed to be completed hastily and without much effort or attention. In particular, the tasks necessary for organizing and managing the sales force were left completely undone. The owners, after over two months had passed since the launch, still did not have a master list of their designers. Delia had all that data in her possession and kept “forgetting” to bring it by the new office.

Lexi and Samantha did not want to fire Delia because she was a friend, and they felt a sense of obligation to her after she let them use her house rent-free for several months. But, at the same time, they could not keep handing her 5% of revenues to do virtually nothing. So, they decided to offer Delia an hourly rate at the office and put her on as an employee, thus eliminating her independent contractor status. Although neither woman expected her to like the news, they did not expect the reaction they got, which was complete silence, followed by angry comments made to mutual acquaintances about how awful CharmedALot was.

Samantha and Lexi both tried communicating with Delia via e-mail to try and get some closure on the relationship, but never got a response. Suddenly, Delia began mailing in receipts for various expenses she had incurred before, during and after her trip to Ohio, plus several hundred dollars to clean the carpets in the room upstairs where the inventory had been stored. The owners were very upset and not sure that the expenses were even legitimate. They instructed Rodney not to write checks to Delia until they had time to think it over.

Rodney became quite vocal about the fact that the owners should pay her every penny she had requested. He said they owed it to Delia, and that they were being petty by even questioning the amounts. It was clear that Rodney—the man who had access to all of their financial information and bank accounts—was loyal to Delia.

Samantha refused to pay any of the invoices until all property belonging to the company, including missing papers and contracts, were returned to the office. Eventually, Delia brought the items to the office. She received her reimbursements and final paycheck, and the owners never heard from her again. However, their friends and designers who knew Delia frequently commented on their encounters with her, and how she referred to CharmedALot and its owners very negatively. Rita had become quite close to Delia during the time they worked together, so she also resigned as soon as Delia left.

THE REAL DRAMAS BEGIN!

PROBLEM #1: RAEGAN & WANDA

Raegan was an old friend of Delia’s, which is how she ended up joining CharmedALot in the first place. When Delia left, the owners generally expected Raegan to leave, and to probably convince her best friend, Wanda, to also leave the company. They were surprised when Raegan stayed and continued working her business, especially since Raegan and Delia were seen around town frequently having lunch together. Knowing what hard feelings Delia had towards the company, Lexi and Samantha were both puzzled by Raegan’s continued relationship with them.
Meanwhile reports were coming in from many people that they had seen other designers selling fakes of the CharmedALot products that they themselves had made. About a month after Delia left the company, Lexi got a call from a wholesale supplier who said someone, later identified as Wanda, was in their store purchasing the raw materials to make CharmedALot products using the business’ tax certificate. As it turned out. Delia had given Wanda a copy of the tax certificate.

When Wanda was confronted with this situation, she indicated that Delia had previously given her the tax number, and told her it was no big deal to use it for personal purchases. But, Wanda was still buying a lot of CharmedALot products and contributing significantly to the company’s revenue, so Lexi was hesitant to terminate her contract or otherwise alienate her after all the other drama that had occurred.

**PROBLEM #2: ZOE**

Zoe was a dynamic sales person and recruited over a dozen new Designers in a matter of weeks after the company launched. She was clearly going to be an important source of growth for the company, but that would not be without a significant price.

When the company had not been launched even thirty days, Delia got word that Zoe was selling her own handmade necklaces at the same parties, shows and events as her CharmedALot products. This was a direct violation of the Code of Designer Conduct. Delia told Lexi that she asked Zoe to discontinue that practice.

A few weeks after Delia left, Lexi went to a craft fair and found Zoe again selling her handmade pieces alongside her CharmedALot. Lexi reminded Zoe of the rules, and Zoe promised it would not happen again, but she also indicated that Delia had told her it was okay to do it as long as it was kept quiet from other designers.

For months after that, reports continued to come in that Zoe was continuing to mix her handmade jewelry with the CharmedALot inventory. Many of those reports came from other designers who were upset about the company’s failure to enforce its rules. Some of them were actually members of Zoe’s team and had first-hand knowledge of her activities.

Lexi and Samantha were torn over the issue. As much as they wanted to enforce their rules evenhandedly, it was difficult to demand too much of Zoe because she continued to recruit a significant number of women to join the CharmedALot sales force. The company was growing rapidly and many of the top performers were on Zoe’s team.

The fear that Lexi had was that if they alienated Zoe, they would lose all of her sales team. The fear that Samantha had was that if they allowed Zoe to continue violating the rules, they would alienate designers who were following the rules. There was one thing the two did agree on, and that was that her disregard for company rules would ultimately poison her sales team in terms of how they viewed the corporate rules and procedures, and, they needed it to stop.

They explained to Zoe how important it was for her to set an example as a company leader. She assured them she finally understood the rules and that it would not happen again, but rumors continued to surface time and time again that Zoe was disregarding the rules of the company. And then? Things got even more interesting.

Judy, one of the designers on Zoe’s team, who Zoe had personally recruited, alleged that Zoe stole a recruit from her. Judy was livid because after spending over a week recruiting Mary to become a designer, Zoe met Mary for the first time at a party on a Friday night, and on Saturday Mary joined CharmedALot under Zoe. Judy was appalled at the brashness with which she felt Zoe flaunted her new recruit, and said “I won’t keep selling for a company that allows this kind of unethical behavior to go unpunished.”
A week or so after that, another newly recruited designer on Zoe’s team called the corporate office asking to speak to an owner. When Samantha spoke to her, she said the inventory included in her business kit was not what she thought she would be selling. “It’s completely different from what Zoe showed me. She showed me all kinds of handmade jewelry items that are nothing like your products. Now I have spent $499 to join, I don’t like the products I’ve received, and, Zoe won’t return my calls to answer my questions.” As it turned out, Zoe had showed this particular person not CharmedALot jewelry, but her own handmade creations, and convinced her that those were the products she would be selling.

The evidence was clear: Zoe would pretty much say or do anything to make a sale or get a recruit, and she had no regard for the company’s rules or code of conduct. And, her disregard for the rules was starting to impact her downline sales force.

PROBLEM #3: RODNEY

Whenever people wonder why some companies prohibit in-office romances, they obviously have never survived a Rodney-and-Delia relationship! Rodney was devastated that he no longer worked with Delia on a daily basis. And, he further was quite open about his disapproval of how Lexi and Samantha treated Delia. It is not uncommon to have employees take sides with each other against management, but when the person who is turning against you is also the controller of the books and the finances? This is not a good situation to be in, the ladies were sure.

Samantha, having had some training in risk management and employee crime prevention, became increasingly worried about the potential for embezzlement. Although no model fully and accurately predicts employee dishonesty and theft, there are certain common motivations for employee theft. One is revenge, and, it was clear that Rodney felt Delia had been wronged, and, he was, in the process, deprived of her company. Another is personal financial troubles (Alstete, 2006). Rodney had reported that he was losing more and more clients in his bookkeeping business due to the economic slump and its effects on his small business clientele. As a result, Samantha was becoming increasingly nervous and worried about Rodney’s honesty. She kept an eye on the bank account and the books regularly and carefully, but she and Lexi agreed that they could not do that indefinitely.

THE CASE FOR ANALYSIS

Not even one year old, CharmedALot is struggling with so many interpersonal problems that the owners wonder if they can survive. Their top performing sales people have no regard for company rules or the company’s ethical values. And, they have an angry former sales force manager who is still good friends with several of the designers in the company (and, who is also very likely still romantically involved with the bookkeeper). They have a bookkeeper they don’t trust. How do they untangle all these messes and get focused on the business at hand?

INSTRUCTOR CASE NOTES

This case highlights the serious staffing and personnel problems small and inexperienced business owners face when starting a new company. Like many business people, the owners thought it would make the most sense to hire friends and acquaintances. What they discovered, though, is that their decisions had serious and long-reaching consequences.
METHOD

The case is based on the author’s own experience of starting and running a direct sales business, plus the experiences of other direct sellers that she has worked with. The names, dates, and details have been changed to protect identities and trade secrets. Some details are fictitious.

CASE OVERVIEW

We begin with the owners, Samantha and Lexi, staffing a new direct sales company and preparing to recruit a sales force of independent contractors. While they are each knowledgeable about various aspects of business, one area of weakness they face is their inability to screen out employees and to make good decisions about hiring.

Once they have made some bad decisions, the ramifications seem to be far-reaching, including having several designers who were recruited by less-than-ethical people (such as Delia and Zoe). Because the sales force in a direct sales company is structured much like a family tree, the concern is that one person at the top may “poison” the rest of that branch of the tree. This could take many forms, including disparaging the owners, encouraging rule breaking, and intentionally sabotaging the company.

TEACHING METHOD

This is definitely a “real world” type case that does not lend itself to a textbook theory or easy solution. It is designed to illustrate how quickly a business can get into trouble with poor hiring decisions, and, how those problems can become intertwined and complicated very quickly. It allows a lot of room for creative problem solving on how to undo the damages.

This case would make a good exercise in a human resource management class, or perhaps in an entrepreneurship class when focusing on the challenges of a small start-up enterprise. It would also be useful in discussing real life problem solving that might require some creative and unusual approaches.

The suggested teaching methodology is to cover the relevant material regarding best practices in hiring and screening employees, corporate culture, contractor versus employee laws, and human resource management in general. Then, assign the case to the students and assign them this question set:

1. List all the warning signs and mistakes in personnel hiring and management that you see were made in the early stages of the company. What should the owners have done differently in each situation? Keep in mind that resources are very limited, so expensive solutions are not an option here.

2. What are the fundamental differences in managing independent contractors and employees? What is the legal test of an independent contractor, and does CharmedALot appear to have kept a true “independent contractor” relationship with Delia?

3. How would you have handled the situation with Delia once it became apparent that she was not going to complete her assigned tasks and fulfill her responsibilities?

4. Write out a job description and list of responsibilities for Delia that should have been given to her before she was hired. Be as specific as you possibly can, making any reasonable assumptions you need to make about what her duties might ultimately entail.

5. Suppose the owners are convinced, when she departs the company, that Delia has effectively poisoned or corrupted Raegan and Zoe. What options are available to remedy this situation? Which one would you choose, and why?
6. How would you handle each of the three specific personnel problems?
   a. Problem #1: What should be done with Zoe? Her sales and recruiting are the best in the company, but, it’s clear that she’s not following the rules and doesn’t intend to do so anytime in the near future.
   b. Problem #2: Can you trust Raegan? Explain why or why not. If not, what should you do with her? And, it’s clear that at least one person on her team (Wanda) isn’t too concerned about conducting business legally. What can you do about this?
   c. Problem #3: What do we do with Rodney? It’s easy enough to see that the owners need a new bookkeeper, but they worry about retaliation on Rodney’s part if they do let him go. Also, budget constraints may keep them from hiring a bookkeeper and they do not have the in house expertise to take over the books themselves.

Ask them to prepare practical answers to each question, along with an analysis of the “worst case scenario” for their recommendations. For example, if the student suggests firing the bookkeeper, then he or she should also have to determine what ramifications there are for that decision? Or, what if the student feels that Rodney and Delia should both be fired to prohibit the consequences of their relationship—how would the business handle securing inventory and also securing the financial record keeping process?

Because this is such a subjective case that involves so many personalities (and, let’s face it, just plain drama), it might also be useful to have students share their thoughts about each question in a class discussion, with the instructor noting the main ideas/themes/solutions to compile a master list of all the possible angles for approaching each item.

HINDSIGHT IS 20/20

In case students are curious, here’s what the owners actually did, and, what they learned from it.

PROBLEM #1: RAEGAN

The owners invited Wanda (Raegan’s recruit who used the tax i.d. illegally) to leave the company after she misrepresented the facts about another business transaction. Wanda soon registered a new business name in the city that looked like it might be a jewelry business, but there was no proof to establish this. Assuming it was a jewelry business, that violated the non-compete agreement with the company, which specified that Designers could not sell competing jewelry for one year after leaving CharmedALot. But, without proof, the owners really couldn’t do anything about it. And, the reality was that even if they had proof, the legal fees to enforce that provision of the contract would far exceed any gain that might be had from postponing Wanda’s new business for a full year from the date she separated from CharmedALot.

About six months later, Wanda was spotted at a craft fair marketing, of all things, CharmedALot products! Although she was not using the CharmedALot name, she was using a CharmedALot designer to help her sell these items, and that designer was Raegan. Raegan was in blatant violation of the non-compete clause in her contract and in the Designer Code of Conduct. Samantha and Lexi confronted Raegan, she denied any involvement in spite of the witnesses who saw her there. She left the company in anger. Fortunately, there were no more designers on her team remaining, so that poisoned branch of the sales force was finally and completely severed.
PROBLEM #2: ZOE

The owners begged and pleaded with Zoe to observe and adhere to the non-compete clause in the Designer Code of Conduct. Meanwhile, the issue of the “stolen recruit” still had to be dealt with. The owners arranged a conference with Zoe to explain how important they felt she was (because she was very good at recruiting and selling), and, to encourage her to follow the rules and set a good example for her team. She was then informed that Judy and five other people insisted one being removed from her (Zoe’s) downline. Zoe felt it was wrong for Lexi and Samantha to grant Judy’s request, and she expressed her disappointment over their actions. Finally, they told her that if she broke another provision of her contract or the Code of Designer Conduct, they would impose a fine on her of no less than $500. Within two months, she again advertised her handmade jewelry for sale on a social media site right alongside her CharmedALot products. The owners sent her notice of the $500 fine and suspended her contract until she paid it. She immediately resigned. All of Zoe’s remaining team members suddenly lost interest in CharmedALot and resigned or became inactive with the company.

Ironically, the owners were commended by several designers for “cleaning up” the sales force and getting rid of Zoe, Raegan and Wanda. As a result many of them had a renewed interest in and spirit for CharmedALot as a business venture and their increased enthusiasm resulted in higher sales that helped offset those of the departed designers.

PROBLEM #3: RODNEY

Samantha’s theory was that it was best not to give Rodney an opportunity to do any damage to the company when they terminated him. She felt it best to sever all ties with Rodney in the quickest, cleanest manner possible. However, to avoid conflict and hard feelings, Lexi felt it was best to let Rodney go with plenty of notice, which they ultimately decided to do.

They explained his termination as being necessary because Lexi’s cousin was going to take over as the new in-house bookkeeper. Rodney said he understood and would help make the transition to the new bookkeeper smooth and easy.2

As soon as Rodney was gone Samantha launched an informal audit. The good news is that no money was found missing. The bad news is she found thousands of dollars in unpaid sales taxes and invoices that were long overdue. Rodney had not mentioned these items to her or the new bookkeeper. Once all bills were paid the company was thousands of dollars overdrawn and the owners had to frantically raid their personal retirement funds to cover the checks. Fortunately, they recovered from the financial setback, although it took months to do so.

THE OWNERS’ FINAL CONCLUSION

The ultimate conclusion of the owners was that they should have treated all the aforementioned branches of the company genealogy as diseased, and, effectively and swiftly chopped them off. They gained nothing by allowing the problems to drag on as long as they did. The problems did not improve nor did they end up being viewed in a favorable light by any of the parties involved, even though they tried to handle everyone as gently as they possibly could to avoid hurt feelings and anger.

Hiring is now done with extreme caution, and, the owners are much less informal and “family-like” with those they do hire. And, they have stepped up enforcement of their rules, and no longer compromise on them, as they found that doing so in the first place was a costly mistake. After almost 36 months in business, the company is still in existence and growing.

2 He then announced that training his replacement would cost $65 an hour instead of his usual $25 an hour. The owners considered three or four hours at that price “money well-spent” and sent him his final check as soon as they could.
REFERENCES


Direct selling association announces U.S. sales and salesforce figures: Direct sales increased 4.6 percent to $29.87 billion. (2012). *PR Newswire*


APPENDIX A: EXCERPTS FROM DESIGNER POLICIES AND PROCEDURES GUIDE

Section 1. DESIGNER CONDUCT

*CharmedALot will intercede to correct unethical activity on the part of any Designer regardless of rank or achievement with the company. Verified unethical or prohibited activities will be justifiable cause for immediate termination and/or disciplinary action as noted in Section 2.*

A. Fraudulent or Dishonest Behavior

1. Designers agree to represent to CharmedALot all facts and information about any situation with the utmost good faith and highest standard of honest.
2. Designer agrees that any evidence of dishonesty in his/her dealings with CharmedALot is grounds for disciplinary actions that may include immediate contract termination.
3. CharmedALot and the party Hosts/Hostesses you work with are required and obligated to deal fairly and honestly with all customers and party guests.
4. If a CharmedALot Designer ever interacts dishonestly or fraudulently with a customer, or is reported by a customer for doing so, his/her Designership will be immediately suspended for further investigation. If evidence of fraudulent or dishonest behavior is found, Disciplinary procedures (see Section 2) will be implemented immediately.
5. If a CharmedALot Designer deals fraudulently or dishonestly with any customer, CharmedALot’s first priority will be to work with the Consultant’s upline sponsor, the party Host/Hostess, and the affected customer(s), to rectify the situation and deliver the promised merchandise, refund amounts paid, and/or take other steps as necessary to make the customer(s) whole again.
   a. Once customers are made whole, CharmedALot will vigorously and thoroughly investigate the Consultant’s behavior and make efforts to recover any losses the Company has sustained in making customer(s) whole.
   b. If the investigation confirms fraudulent or dishonest behavior, the suspended Consultant’s *Contract* with CharmedALot will be permanently cancelled and all pending compensation checks or payments will be held and the value of the replaced merchandise and/or refunds, plus any applicable taxes, shipping, handling, or other fees, will be deducted from commissions owed the Consultant.
6. Designers who commit fraudulent or dishonest acts, when appropriate, will be turned over to legal authorities.
7. Designers must never encourage another party to commit fraudulent or dishonest behavior.
8. Every Designer has an obligation and duty to his/her own business, as well as every other Consultant’s business, and the Company as a whole, to report suspected fraudulent or dishonest behavior to compliance@CharmedALot.com

B. Claims Regarding Income or the Business Opportunity
1. Designers are expressly forbidden to imply that the current Compensation Plan will ever be any better or more generous than it currently is.
2. You may not and must not ever make specific claims to demonstrate the earning potential of the CharmedALot business opportunity. You must not ever make specific claims about your own earning information or share your own earning information or the earning information of other Designers with prospective Designers. Many Federal and state laws prohibit such recruiting tactics.

C. Claims Regarding Products
1. You may not ever exaggerate or misrepresent any information about CharmedALot’s products.
2. Information regarding the content of each product, its country of origin, etc., must be represented to customers accurately and truthfully. If you do not know where a particular item is made, you should be honest about that. Do not make something up or otherwise guess at the source or composition of our products.
3. You must never make unfair comparisons between CharmedALot’s products and any other jewelry products.
4. Designers must never promise that any particular products item will or will not remain in stock. The product offerings of our company may change at any time. Designers must never promise that any additional products or services are or will be forthcoming from CharmedALot.

D. Cross-Sponsoring
1. Cross-sponsoring occurs when a Designer knowingly enrolls or attempts to enroll another Designer or a former Designer under him/her when that Designer is enrolled in a different line of sponsorship, or, the former Designer was enrolled in a different line of sponsorship within the past six months.
2. Cross-sponsoring is absolutely prohibited and the use of any means to achieve this, including the use of another name or identification, is fraudulent behavior that will not be tolerated.
3. You are not allowed to demean, discredit, or defame other CharmedALot Designers in an effort to entice another Designer to become part of your downline organization.
4. If you discover cases of cross sponsoring, you must immediately report this activity to compliance@CharmedALot.com
5. Corrective Actions When Cross-Sponsoring is Discovered
   a. CharmedALot may take disciplinary action (see Section 2, “Disciplinary Action”) against any Designer for participating in or encouraging cross-sponsoring activity.
   b. In addition to disciplinary action against the responsible Consultant(s), CharmedALot reserves the sole right, at its discretion, to remove and reassign to another downline any affected Designers. The choice of a new upline sponsor is solely within CharmedALot’s discretion.
   c. Designers involved in cross-sponsoring waive all claims and causes of action against CharmedALot relating to the disposition of the cross-sponsored Consultant’s downline organization.
E. Negative and Disparaging Remarks
   1. About The Company
      a. Negative comments and remarks made about CharmedALot serve no purpose other than to
damage other Designers’ businesses and overall morale.
      b. Comments made in the spirit of improving CharmedALot are appreciated by its owners and
managers and are welcome, but, should be communicated directly to
service@CharmedALot.com
      c. If you disparage CharmedALot in any other way or forum, it is considered a material breach
of this Contract and you will be subject to Disciplinary action as afforded in this Guide.
   2. About Other Designers (also see “Cross Sponsoring”)
      a. Designers are part of a very special and powerful family, and, must not demean, insult,
defame, or otherwise gossip about, other Designers. To do so lowers morale and the
strength of our sales force.
      b. Concerns about another Consultant’s behavior should be directed to
compliance@CharmedALot.com, the Designer herself, or, her personal sponsor.

F. Non-Compete Policy: Current Designers
   1. The Designer agrees that s/he will not use any information or products supplied by
CharmedALot to compete with CharmedALot either directly or indirectly.
   2. It is in the best interest of every Consultant’s business to avoid the appearance of selling other
jewelry products that directly or indirectly compete with CharmedALot products. The following
policies apply to the sale of non-CharmedALot jewelry.
   3. All Designers must not sell non-CharmedALot jewelry without written permission from
CharmedALot.
      a. Selling such products may result in serious disciplinary action.
      b. Permission must be requested by completing the appropriate form and submitting the
required documentation.
      c. The burden of requesting permission and documenting the situation is always on the
Consultant.
      d. The Designer should assume the permission is NOT granted unless and until s/he receives a
written notice from the Company specifically granting such permission.
      e. Any Designer selling any non-CharmedALot jewelry products at any time during his/her
Designership has the burden of proving that appropriate permission was obtained from
CharmedALot before such jewelry was sold.

G. Non-Compete Policy: Former/Terminated Designers
   1. The Designer agrees that he/she will sell no other jewelry products of any kind for the period of
twelve (12) months following the termination of the contract with CharmedALot.
   2. This non-compete policy applies regardless of which party initiates termination of the
Designership.
   3. CharmedALot provides valuable training to each Consultant, and the value of that training is
$2,500. Designers who wish to sell jewelry before twelve months have elapsed are expected to
compensate CharmedALot for the training received.

H. Obligation to Report
   1. It damages every Consultant’s business when individual Designers ignore the rules and policies
of the Company.
   2. If a Designer becomes aware that another Designer is mistreating or neglecting their downline
members, or, is violating CharmedALot rules, policies or procedures, that Designer should notify
the sponsor of the Designer who is in violation, and/or notify compliance@CharmedALot.com
immediately.
   3. Under no circumstances should a Designer take disciplinary matters into his/her own hands.
I. Respect and Support for Fellow Designers
   1. Every Designer is required to ask a new prospect if they are presently working with another CharmedALot consultant. If they are, the Designer should avoid pursuing business with that prospect unless and until the other Designer is notified.
   2. Under no circumstances is it permissible for Designers to knowingly “steal” customers, hostesses, or potential Designer recruits, from another CharmedALot consultant.
   3. Every Designer agrees to educate, train and motivate all downline Designers, whether or not they are/were personally sponsored.

Section 2. DISCIPLINARY ACTION

A. Discipline In General
   1. The owners and managers of CharmedALot implore each Designer to abide by all parts of the Independent Designer Contract to avoid the imposition of disciplinary sanctions.
   2. It is not CharmedALot’s desire to administer disciplinary sanctions on a Consultant; however, in some cases that is the only way to correct improper behavior and motivate Designers to observe and adhere to the Company’s policies, procedures and rules.

B. Disciplinary Sanctions May Include Any/All Of The Following:
   1. A spoken or written warning or admonishment;
   2. A requirement that you take immediate corrective measures;
   3. Imposition of a fine, which may be withheld from bonus and commission payments; and/or temporary or permanent loss of rights to one or more bonus and/or commission payments;
   4. A temporary or permanent suspension of your website, access to the Designer Center, or your ability to place product or business supply orders;
   5. Suspension of your Designer Contract for one or more pay periods;
   6. The removal of one or more Designers and their downline organization from your downline organization;
   7. Involuntary termination of your Designer Contract (in which case there will be no option to sell back inventory to the Company, or, to transfer the downline to another party), and,
   8. Any other measure allowed within any portion of the Contract, or which CharmedALot deems appropriate, to equitably resolve injuries caused wholly or in part by your policy violation or contractual breach.

APPENDIX B: DESIGNER CODE OF CONDUCT

To ensure that our designers uphold our corporate values and Code of Ethics, we have established this list of policies. Abiding by these policies will ensure that the designer does business the CharmedALot way.

The CharmedALot Designer agrees to:
1. Read all Company materials, including these Policies and Procedures, and all materials provided in the current version of the Designer Guide.
2. Regularly read all Company e-mails and correspondence.
3. Participate in Company-provided training.
4. Understand and comply with all state, local and federal laws, policies, procedures and requirements.
5. Encourage fiscally responsible behavior among customers and the downline. The use of credit cards to finance large product purchases should not be encouraged by any member of the organization or by any designer.
6. Never identify themselves as employees or legal representatives of CharmedALot. Designers are independent contractors for the company. No employment relationship should be inferred or implied in any way, shape or form.

7. Honor and abide by the terms and conditions of their contract with CharmedALot.

8. Not sell another company's jewelry products while selling for CharmedALot, nor for at least one year after termination of the relationship with CharmedALot.

9. Respect the contracts of other direct selling companies in conducting business.
   a. If a designer chooses to sell another company’s non-jewelry products, the designer is solely responsible for understanding and complying with that company’s rules regarding working for multiple direct selling companies at the same time.
   b. Designers should never aggressively try to “steal” the designers of other direct selling jewelry companies. Explaining the opportunity with CharmedALot is fine, but aggressive recruiting tactics hurt the reputation of every CharmedALot designer and our corporate reputation.

10. Never knowingly encourage anyone to violate any contract.

11. Not disparage other jewelry product line and companies, or make unfair comparisons with CharmedALot products.

12. Not misrepresent or exaggerate the properties and qualities of CharmedALot products.

13. Provide information about the CharmedALot business opportunity to anyone 18 and over who requests such information.

14. Always ask a new prospect if they are presently working with another CharmedALot designer. If they are, the Designer should avoid pursuing business with that prospect unless and until the other Designer is notified. Under no circumstances is it permissible for designers to knowingly “steal” customers, hostesses, or potential designer recruits, from another CharmedALot designer.

15. Refrain from making disparaging remarks about another CharmedALot designer, CharmedALot, or its products. If there are concerns about another designer’s behavior, a corporate policy, or the quality of a particular product, the designer should report the issue to the company.

16. Make no guarantees to any person concerning CharmedALot products, or earning potential, other than those contained in the Company’s literature.

17. Educate, train and motivate all downline designers, whether or not they are/were personally sponsored.

18. Dress appropriately for the setting of each CharmedALot jewelry party.
   a. When parties are held in a customer’s home, business casual (or better) attire is expected.
   b. When parties are held in an office or professional setting, the office dress code must be observed. The Designer should inquire about this ahead of time.
   c. If a party is held beach-side or pool-side, tasteful shorts, halters, or bathing suits may be worn.
   d. Obscene or profane sayings, slogans, or clothing should never be worn when selling or representing CharmedALot or its products.

19. Accurately complete all paperwork and forms submitted to the company. When in doubt about the proper course of action, designers may contact CharmedALot for clarification and guidance.