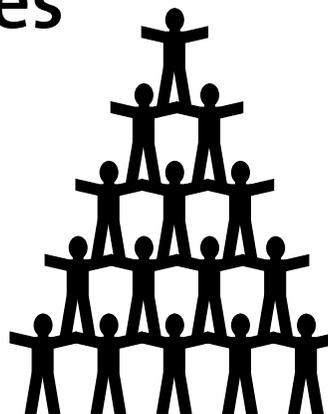


## The Bottom Line About Multilevel Marketing Plans and Pyramid Schemes



**M**ultilevel or “network” marketing plans are ways to sell goods or services through distributors. Typically, these plans promise that if you sign up as a distributor, you’ll get commissions not only from the sales you make, but also from the sales of the people you recruit to become distributors. These recruits sometimes are called your “downline.”

Not all multilevel marketing plans are legitimate. Some are pyramid schemes. It’s best not to get involved in plans where the money you make is based primarily on the number of distributors you recruit and your sales to them, rather than on your sales to people outside the plan who intend to use the products.

Joining a pyramid is risky because the vast majority of participants lose money to pay for the rewards of a few people at the top.

How can you tell the difference between a bona fide multilevel marketing plan and a pyramid scheme? According to the Federal Trade Commission, the nation’s consumer protection agency, it takes research, some business sense and a healthy share of skepticism.

# Facts for Consumers

## Evaluating a Plan

What's involved in doing research? Asking your sponsor and other distributors tough questions, and digging for details. Don't consider it nosy or intrusive: you are on a mission to check out a potential opportunity that will require your money and your time.

### **1. Find — and study — the company's track record.**

Look for newspaper or magazine articles about the company. Do an internet search. Look through several pages of search results to get a good idea of the information available about the company.

- How long has the company been in business? Does it have a positive reputation for customer satisfaction?
- What can you find out about the product and the service?
- What's the buzz about the company and the product on blogs and websites?
- Has anyone sued the company for deceptive business practices? Checking with your local Better Business Bureau, Chamber of Commerce and state Attorney General for complaints about any company you're considering investing in is a prudent thing to do. But remember that a lack of complaints doesn't guarantee a company's legitimacy.

**2. Learn about the product.** What will you be selling? Are similar products on the market? Is the product priced competitively? Is it safe? Can your sponsor — the distributor who is recruiting you — support claims about the product's performance?

**3. Ask questions.** Ask your sponsor for the terms and conditions of the plan: the compensation structure, your potential expenses, support for claims about how much money you can make and the name and contact information of someone at the company who has details about the terms and conditions and can tell you how much the average distributor makes before and after expenses. Get this information in writing. Avoid any plan where the reward for recruiting new distributors is more than it is for selling products to the public. That's a time tested tip-off to a pyramid scheme.

Multilevel marketing plans usually base at least part of your monthly income and bonuses on the sales of the distributors you recruit. Keep in mind that if you solicit new distributors, you are responsible for the claims you make about how much money they can earn. Be honest, and avoid making

unrealistic promises. If the promises fall through, you could be held liable, even if you are simply repeating claims you read in a company brochure or advertising flyer, or heard from another distributor.

If you don't understand something, ask for more information until it is absolutely clear to you. Your sponsor and other distributors should be willing to answer your questions. Be skeptical and carefully evaluate the information you get. Remember that your sponsor and other distributors above you likely will make money if you join the program. So take your time, and don't yield to pressure to join.

### Yes, it's a pyramid scheme!

- Do distributors sell more product to other distributors than they do to the public?
- Does the amount of money distributors make depend more on recruiting, (that is, getting new distributors to pay for the right to participate in the plan)?
- Does the money made depend mostly on selling to other distributors than on sales of the product to the public?

**4. Understand any restrictions.** Get the company's refund policy in writing. Make sure it includes the process for returns as well as restrictions on — or penalties for — returning unused products if you choose to leave the plan. It may seem like you're minimizing your risk if you can return products for a reimbursement, but policies vary on getting full refunds — and how long it could take.

Many plans require you to buy training or marketing materials or pay for seminars if you want to get product discounts or create your own network of distributors. Find out how much time and money other distributors spent on training, marketing materials and seminars when they joined the plan, and whether the plan requires you to participate in periodic training. What happens if you opt out of the training?

**5. Talk to other distributors.** Ask your sponsor for the names and contact information for distributors at all levels of the plan. Get in touch with them to ask the same questions you asked your sponsor. In most plans, “upline” distributors stand to benefit when you buy into the system, so they should be willing to answer your questions with specifics.

If you get vague answers or guesses, ask follow-up questions until you hear — and understand — the information you need to make your decision. Be aware that there may be shells — “decoy” references paid by the company or distributor to pretend they had success earning money through the plan.

**6. Consider using a friend or adviser as a neutral sounding board or for a gut check.** You may want to consult with an accountant, a lawyer or another person you trust who is not affiliated with the plan to review the terms of compensation, determine whether the plan can back up any claims about the

## Asking Questions

Here are some important questions to ask your sponsor and distributors at different levels of the organization. Their responses can help you detect false claims about the amount of money you may make and whether the business is a pyramid scheme.

1. What are your annual sales of the product? How much product did you sell to distributors? What percentage of your sales were made to distributors?



One sign of a pyramid scheme is if distributors sell more product to other distributors than they do to the public.

2. What were your expenses last year, including money you spent on training and purchasing products? How much money did you make last year — that is, your income and bonuses *minus your expenses*? How much time did you spend last year on the business? How long have you been in the business? How many people are in your downline?



It's important to get a complete picture of how the plan works: not just how much money distributors make, but also how much time and money they spend on the plan, how long it takes to make money and how big a downline is needed to make money.

3. What percentage of the money you made — income and bonuses *minus your expenses* — came from recruiting other distributors and selling them inventory or other items to get started?



Another sign of a pyramid scheme is if the money you make depends more on recruiting — getting new distributors to pay for the right to participate in the plan — than on sales to the public.

# Facts for Consumers

amount of money you can make, and analyze the information you've gathered and the answers to your questions.

**7. Take your time.** Don't pay or sign any contracts in an "opportunity meeting." Take your time to think over your decision. Your investment requires real money, so talk to the distributors in settings that make you comfortable and when there's the opportunity to take your time.

**8. Think about whether this plan suits your talents and goals.** Ask yourself whether you would enjoy selling products to the public. Find out how many hours a week your sponsor and other distributors spent on the business when they joined the plan and how much time they spend now. Remember that no matter how good a product and how solid a multilevel marketing plan may be, you'll need to invest sweat equity and

money for your investment to pay off. Consider the other demands of the business — for example, training, recruiting new distributors, managing paperwork, inventory and shipping — and factor how much time it could take to achieve the amount of money you anticipate.

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit [ftc.gov](http://ftc.gov) or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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