

*Protecting Wisconsin Consumers for 75 Years*

## Pyramid schemes

Do you have a friend who wants to “let you in on the ground floor” of a fantastic business opportunity? Think twice if the opportunity involves making an initial “gift” and then you just have to recruit new members into the business—this is only a new twist to the age-old pyramid scheme.

Pyramids are subject to Wisconsin laws that prohibit untrue, deceptive or misleading presentations and unfair practices.

### The new twist

Pyramid schemes may be disguised as games, buying clubs, motivational companies, chain letters, mail order operations or multi-level business opportunities. They all have the theme of get-rich-quick. Other versions are called “giving” or “gifting” networks. Consumers are asked to “make a contribution” to the chairperson of the plan, who is on top of the pyramid.

Pyramid promoters are targeting closely-knit social and religious organizations, encouraging participants to bring in friends and relatives. People want to believe friends or relatives, so they are discouraged from checking first with The Bureau of Consumer Protection or Better Business Bureau.

There are many types of pyramid schemes, and the number of people

involved varies. Consider the numbers if one person recruited six “investors,” each of whom, in turn, had to recruit six others. Carried through nine progressions it would require over 10 million people! (See illustration).

The company or one individual is at the top. When the supply of people runs out, the pyramid collapses, and most people at the bottom of the pyramid lose their money.

Pyramid Progression	
Level	Number of People
1	6
2	36
3	216
4	1,296
5	7,776
6	46,656
7	279,936
8	1,679,616
9	10,077,696

### Characteristics of a pyramid

- Emphasis is on recruiting new participants, rather than selling a product or service.
- A product or service may be offered but is largely ignored.
- Presented as a “unique” way to obtain quick and easy living.

- Unclear where money is being spent.
- Concentrate on recruiting people with limited means and knowledge of business.
- Participants may initially make some money.
- Participants rarely complain.

### Multilevel marketing plans

Multilevel or “network” marketing plans are a way of selling goods or services through distributors. These plans typically promise that if you sign up as a distributor, you’ll receive commissions – for your sales and those of the people you recruit to become distributors. These recruits sometimes are referred to as your “downline.”

Some multilevel marketing plans are legitimate. However, others are illegal pyramid schemes. In pyramids, commissions are based on the number of distributors recruited. Most of the product sales are made to these distributors – not to consumers in general. The underlying goods and services, which vary from vitamins to car leases, serve only to make the schemes look legitimate.

Joining a pyramid is risky because the vast majority of participants lose money to pay for the rewards of a lucky few. Most people end up with nothing to

show for their money except the expensive products or marketing materials they're pressured to buy.

If you're thinking about joining what appears to be a legitimate multilevel marketing plan, take time to learn about the plan. What's the company's track record? What products does it sell? Does it sell products to the public-at-large? Does it have the evidence to back up the claims it makes about its product? Is the product competitively priced? Is it likely to appeal to a large customer base? How much is the investment to join the plan? Is there a minimum monthly sales commitment to earn a commission? Will you be required to recruit new distributors to earn your commission?

Be skeptical if a distributor tells you that for the price of a "start-up kit" of inventory and sales literature – and sometimes a commitment to sell a specific amount of product or service each month – you'll be on the road to riches. Often consumers spend a lot of money to "build their business" by participating in training programs, buying sales leads or purchasing the products themselves. Too often, these purchases are all they ever see for their investments.

## Your responsibilities

If you decide to become a distributor, you are legally responsible for the claims you make about the company, its product and the business opportunities it offers. That applies even if you're repeating claims you read in a company brochure or advertising flyer. You should verify the research behind any claims about a product's performance before repeating those claims to a potential customer.

In addition, if you solicit new distributors, you are responsible for the claims you make about a distributor's earnings potential. Be sure to represent the opportunity honestly and avoid making unrealistic promises. If those promises fall through, remember that you could be held liable.

## Evaluating a plan

Use common sense when evaluating a multilevel marketing plan and consider these tips as you make your decision:

1. Avoid any plan that includes commissions for recruiting additional distributors. It may be an illegal pyramid.
2. Beware of plans that ask new distributors to purchase expensive products and marketing materials. These plans may be pyramids in disguise.
3. Be cautious of plans that claim you will make money through continued growth of your downline, that is, the number of distributors you recruit.
4. Beware of plans that claim to sell miracle products or promise enormous earnings. Ask the promoter to substantiate claims.
5. Beware of shills – "decoy" references paid by a plan's promoter to lie about their earnings through the plan.
6. Don't pay or sign any contracts in an "opportunity meeting" or any other pressure-filled situation. Insist on taking your time to think over your decision. Talk it over with a family member, friend, accountant or lawyer.
7. Do your homework! Check with the Better Business Bureau and Bureau of Consumer Protection about any plan you're considering – especially when the claims about the product

or your potential earnings seem to good to be true.

8. Remember that no matter how good a product or how solid a multilevel marketing plan may be, you'll need to invest sweat equity as well as dollars for your investment to pay off.

## Protect yourself

Before you invest, ask for the company's business and financial statements. Check references and background. Determine where the company is incorporated. Out-of-state corporations are often difficult to track down.

Beware of statements by the company that it has the approval of a government agency, Better Business Bureau or Chamber of Commerce. None of these organizations ever endorse or approve specific marketing plans.

For more information or to file a complaint, visit our website or contact the Bureau of Consumer Protection.

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(Some information taken from the FTC fact sheet "The Bottom Line about Multilevel Marketing Plans")