Business Opportunities (Multilevel Marketing)

Want to "be your own boss," "work from home," or just "make extra money?" Then you may be tempted by an advertisement for a business opportunity. Before you pay anything, check out the offer.

Joining a pyramid is risky because the vast majority of participants lose money.

Fraudulent business opportunity promoters use the classifieds and internet ads to make various offers, from vending machine routes to work-at-home businesses like medical billing and envelope stuffing. Too often, these ads make promises about earnings, locations, merchandise, or marketability that sound great, but are not truthful. The result is that consumers get ripped off and lose money.

Be cautious of vague advertisements making income promises too good to be true. If the advertisement does not give a company name or address, only gives a telephone number or website, and uses vague phrases leaving you wondering, it is probably a scam. The reality is the business may have little or no market, the products provided may be cheap, low-quality, or outdated, and the supposed "experts" have no expertise. The company may also ignore your questions and concerns.

Fraudulent business opportunities not only prey on consumers, they also harm legitimate businesses. To evade the law, they often jump from city to city, leaving behind unpaid bills for media ads, office rent, phone bills, mail delivery, and more.

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 will receive commissions for your sales and the sales of the people you recruit to become distributors, often 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 the general consumers. The goods and services offered are only to make the schemes look legitimate.

Joining a pyramid is risky because the vast majority of participants lose money. Most people end up with nothing to show for their money except the expensive products or marketing materials they are pressured to buy.

Do your research

Ask your sponsor and the other distributors tough questions and dig for details.

Study the company. 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.

Ask for the company Prospectus. This is a formal legal document required by the Securities and Exchange Commission that provides details about an investment offering for sale to the public and should contain facts that you need to know to make your decision.

- 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 is the buzz about the company and the product on blogs and websites?
- Has anyone sued the company for deceptive business practices?

Learn about the product.

- What would you be selling? Are similar products on the market? Is the product priced competitively?
- Can your sponsor – the distributor who is recruiting you – support claims about the product's performance?
- Is it safe?

Understand the plan. Ask your sponsor for the terms and conditions of the plan.

- What is the compensation structure? What are your potential expenses? Get support for claims about how much money you can make.
- What is 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. Multilevel marketing plans usually base at least part of your monthly income and bonuses on the sales of the distributors you recruit. That is a time tested tip-off to a pyramid scheme.

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 are 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. Does the plan require you to participate in periodic training? What happens if you opt out of the training?

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. 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 shills or "decoy" references paid by the company or distributor to pretend they had success earning money through the plan.

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

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 and how much time they spend now. Consider the other demands of the business – such as training, recruiting new distributors; managing paperwork, inventory, and shipping – and factor in how much time it could take to achieve the amount of money you anticipate.

Question sponsors & distributors

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 percent 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 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 new distributors to pay for the right to participate in the plan, than on sales to the public.

3. 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 is 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 of a downline is needed to make money.

   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 will 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.

Common problems

Investigations associated with multilevel marketing and business opportunity plans have uncovered some common problems.

1. **Exaggerated profits** A major problem with multilevel marketing and business opportunity advertising is the claim that you can make more money than possible. Many business promoters use income projections that could be possible, rather than amounts really being made. Actual income examples that are provided usually do not reflect the income experience of most distributors or investors.
2. **Exaggerated market** Promoters usually say you will be able to sell more products or that more people will be interested in your service than is realistic.
3. **Denying the offer involves a pyramid scheme** Pyramids or chain distributor schemes tend to describe marketing plans that involve recruiting participants in order to create "levels" within an organization. Sometimes that plan involves selling merchandise or services, but the real emphasis is on recruiting other participants. For instance, you make money by recruiting four people to join the scheme, and additional money if they each recruit four people, and so on (the number of people being recruited spreads like a pyramid).
4. **Claiming the plan is new** Multilevel marketing plans are not a new way to market. While it may have unique features, if it is based on an incentive to recruit members or distributors, it is not a new way to market.
5. **Claiming no selling is involved** If the company has a multilevel marketing plan, selling is involved because recruiting others to sell is still considered selling.
6. **Conflicting oral statements** Frequently the promoter will make oral statements that differ from written material. There should be no discrepancies between what is written and what is said.
7. **Approval or endorsement claims** Some promoters claim the Bureau of Consumer Protection, Better Business Bureau, Chamber of Commerce, or other organizations or government agencies endorse or have approved the marketing plan. None of these agencies endorse or approve marketing plans. To represent any affiliation, connection, approval, or certification by any agency or organization when there is no connection or approval is illegal.

Ponzi scheme

Organizers of a Ponzi scheme attract investors by promising to invest their money in high income return opportunities. Money from new investors is paid to existing investors without actually being invested in any legitimate investment activities. This requires a constant flow of money from new investors to continue. With no legitimate earnings, Ponzi schemes eventually collapse when it becomes difficult to find new investors or existing investors ask to cash out.

Check all promises

Before you invest in a business opportunity or multilevel marketing plan, do the following:

- Look at the advertisement carefully. If it claims buyers can earn a certain income, does it give the number and percentage of previous purchasers who achieved those earnings claims?
- Obtain the names of **at least 10** other investors and discuss with these investors their experience in the plan or with the promoter.
- Get earnings claims in writing. Ask what percentage of people actually achieved the level of income, the time period it represents, and how long it took to achieve the level of income.
- If the business opportunity is a franchise, study the disclosure document. Look for a statement about previous purchasers. If the document says there are no previous purchasers but the seller offers a list of references, be careful. The references are probably fakes. For more information on registration of franchises in Wisconsin, contact the Wisconsin Department of Financial Institutions at:

  (608) 266-0448
  dfi.wi.gov

- Obtain specific proof that you will have a good market. Get all verbal promises in writing. Ask, how many other distributorships will be sold or are already operating in the area? Talk to local business people who are familiar with the product and the market before you decide to invest.
- Ask for copies of the company's business and financial statements. Who are the principal investors or owners? Do they have prior business experience? Where is the company incorporated? If your investment is sizeable, hire a private investigator to look into the company and its officers.
- Determine all costs you must pay, such as start-up fees, pay for training, sample products, literature, or display materials.
- Find out if the company will buy back your inventory if you decide to quit. A common scheme requires a large initial inventory purchase which you may not be able to sell.
- If the business opportunity involves selling products from well-known companies, call the legal department of the company whose merchandise would be promoted. Is the promoter affiliated with the company? Has the company ever threatened trademark action against the promoter?
- Find out if any special licenses or permits are required. For instance, in Wisconsin, certain food vending machines require an operator's permit and approval from the state. Other vending machines may not be required to be licensed by the state, but may be required to be licensed at the local level. For more information on state vending machine licensing requirements, contact the Department of Agriculture, Trade and Consumer Protection, Bureau of Food and Recreational Businesses Licensing Section at:

  (608) 224-4923
  datcpdfslicensing@wisconsin.gov

- Check for complaints on file by calling the Bureau of Consumer Protection and the Better Business Bureau.
- Be cautious. Do not decide to do business with a company just because no complaints have been filed.
- Always consult with a private attorney or certified accountant regarding the specifics of the plan or concerns about the contract. Do not rely on the advice of company representatives who will benefit by your decision to invest. **Get all promises in writing.**

- Take your time. Promoters of fraudulent business opportunities often use high-pressure sales tactics. If the business opportunity is legitimate, it will still be around when you are ready to decide.

State role

The state of Wisconsin has no registration requirements for multilevel marketing plans. The Bureau of Consumer Protection does review business opportunity and multilevel marketing offers in its role of enforcing the state's deceptive advertising and unfair trade practices laws (Wis. Stat. §§ 100.18, 100.20 and 100.26). Copies of Wisconsin rules and statutes are available on the Wisconsin State Legislature website at:

legis.wisconsin.gov

Wis. Adm. Code, ch. ATCP 122, prohibits "the promotional use of a chain distributor scheme" as an unfair trade practice. However, there is no legal definition of the terms multilevel marketing or pyramid plan. Wis. Admin. Code, ch. ATCP 116, regulates contracts and disclosure requirements regarding work recruitment schemes. Wis. Admin. Code, ch. ATCP 127, regulates direct marketing.

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 are 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.

For more information visit our website or contact:

Wisconsin Department of Agriculture,
Trade and Consumer Protection
Bureau of Consumer Protection
2811 Agriculture Drive
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Email: DATCPHotline@wi.gov
Website: datcp.wi.gov
Phone: (800) 422-7128
TTY: Dial 711 or (800) 947-3529 before calling DATCP

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