



Pyramid Schemes

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

Not all multi-level marketing plans are legitimate - some are actually pyramid schemes. It is 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.

Yes, it's a pyramid scheme!

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. Most people end up with nothing to show for their money except the expensive products or marketing materials that they are pressured into buying.

Characteristics of a pyramid scheme

How can you tell the difference between a legitimate multi-level marketing plan and a pyramid scheme? Take some time to do your research.

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!

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.

A few easy ways to detect whether you may be getting involved in a pyramid scheme are:

- Emphasis is on recruiting new participants, rather than selling a product or service. The product or service(s) offered may be largely ignored.

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

- Plans asking new distributors to purchase expensive products and marketing materials.
- Plans that concentrate on recruiting people with limited means and knowledge of business.
- Plans that claim to sell miracle products or promise enormous earnings.

A variety of schemes

Gifting clubs are a type of pyramid scheme often beginning in neighborhoods, churches, or similar small communities. The internet is also a popular place to find a gifting club classified as a business opportunity or online money-making venture. In reality, the clubs are illegal pyramid schemes.

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” 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 close knit social and religious organizations, encouraging participants to bring in friends and relatives. People want to believe friends or relatives, so they are less likely to check with the Bureau of Consumer Protection.

Get Rich Quick Schemes

Some infomercials and other advertisements may encourage you to purchase program materials such as books, audio and video tapes, or computer hardware and software. The materials can range in price from less than \$100 to several thousand dollars. Some promoters claim to include a toll-free telephone consulting service with your purchase and offer a money-back guarantee.

Lured by the promises of easy success, you may invest in programs, materials, or services without much thought. Later, you, like many others, may find the program or business opportunity was essentially worthless and all you have are empty promises.

There is no such thing as “easy money”

The promises of quick, easy money can be a powerful lure, especially when it comes with the additional benefit of new friendships or the convenience and ease of the internet.

If you are approached about joining a gifting club, but are not sure if it is legal, remember to:

- Consider that a legitimate gift has no strings attached and is not an “investment.”
- Avoid being misled into thinking a gifting club is legitimate because the ads say that members consider their payments a gift and expect nothing in return. This is an attempt to make an illegal transaction look legal.
- Be wary of success stories or testimonials of tremendous payoffs. Very few members of illegal gifting clubs or pyramid schemes ever receive any money.
- Do not buckle under a high-pressure sales pitch that requires you to join immediately or risk losing out on the opportunity. Solid opportunities and friendships are not formed through nerve-wracking tactics.

A source for cash gifting clubs is the internet. They still promote themselves as clubs or associations – never as a business. They set up websites and YouTube links with appealing club names implying benevolence, friendship and charity, such as “Abundant Living System.” Money, in the form of cash, is transferred using FedEx (avoiding

mail fraud charges by the post office). Promoters use common names that are not easy to trace, such as “Smith” or “Jones.” They are hard to trace and even more difficult to locate since they can operate from a variety of locations – even from a foreign country.

Multi-level marketing plans

If you are thinking about joining what appears to be a legitimate multi-level marketing plan, take time to learn about the plan. Do your research!

Find and study the company’s track record.

How long has the company been in business?

“Yes. It’s a Pyramid Scheme!”

- Do distributors sell more product to other distributors than they do to the public?
- Does the money made depend more on selling to other distributors than on sales of the product to the public?

What product(s) does it sell? Does it sell products to the public-at-large? Do the company and its product(s) have a positive reputation? Check blogs and websites.

Learn about the product.

What product will you be selling? Are there similar products on the market? Does the company 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?

Ask questions.

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?

Understand any restrictions.

Get the company’s refund policy in writing. What is the process for returns? Are there restrictions or penalties for returning unused product?

Talk to other distributors.

Ask your sponsor for the names and contact information of other distributors at all levels. Ask them the same questions you asked your sponsor. Ask them how much time and money they have spent on marketing materials, training and seminars. Are they answering your questions with specifics or are they giving you vague answers or guesses?

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.

Consider using a friend or adviser as a neutral sounding board or a gut check.

You may want to check with an accountant, a lawyer, or another person who is not affiliated with the plan to review the terms of compensation and analyze the information you have gathered.

When checking out the company, beware of skills, also known as a “decoy,” references paid by a plan’s promoter to lie about their earnings through the plan.

Take your time.

Do not 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.

Think about whether this plan suits your talents and goals.

Ask yourself whether you would enjoy selling the product(s) to the public. Find out how much of a time commitment is required.

Remember that no matter how good a product or how solid a multi-level marketing plan may be, you will need to invest sweat equity as well as dollars for your investment to pay off.

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 offered. 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.

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.

Check with the Better Business Bureau and Bureau of Consumer Protection about any plan you are considering, especially when the claims about the product or your potential earnings seem too good to be true.

For more information

Consider consulting the following resources to learn more about money management and business ownership:

Your local library. Check out materials on personal finance and those geared toward the small business owner. You also might take some courses on these subjects at local community colleges.

Wisconsin Small Business Administration
(414) 297-3941

Wisconsin Economic Development Corp.
(855) 469-4249

US Small Business Administration
(800) 827-5722

US Department of Commerce

(202) 482-2000

Ask about publications and programs they offer for new and potential business owners.

For more information or to file a complaint, visit our website or contact:

Wisconsin Department of Agriculture,
Trade and Consumer Protection

Bureau of Consumer Protection

2811 Agriculture Drive, PO Box 8911

Madison, WI 53708-8911

Email: DATCPHotline@wi.gov

Website: datcp.wi.gov

(800) 422-7128

TTY: (608) 224-5058

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