

MULTI-LEVEL MARKETING vs PYRAMID SCHEMES

Multi-level Marketing (MLM) or network marketing, is individuals selling products to the public — often by word of mouth and direct sales. The main idea behind the **MLM strategy** is to promote maximum number of distributors for the product and exponentially increase the sales force. The promoters get commission on the sale of the product as well as compensation for sales their recruits make thus, the compensation plan in multi-level marketing is structured such that commission is paid to individuals at multiple levels when a single sale is made and commission depends on the total volume of sales generated.

Pyramid Schemes are, however, fraudulent schemes, disguised as an MLM strategy. The difference between a pyramid scheme and a lawful MLM program is that there is no real product that is sold in a pyramid scheme. Participants attempt to make money solely by recruiting new participants into the program. The hallmark of these schemes is the promise of sky-high returns in a short period of time for doing nothing other than handing over your money and getting others to do the same.

Legitimacy

Learn more about the company, by finding and studying the company's track record. Do an internet search with the name of the company and words like review, scam, or complaint. Look through several pages of search results. You also may want to look for articles about the company in newspapers, magazines, or online. Find out:

- how long the company has been in business
- whether it has a positive reputation for customer satisfaction
- what the buzz is about the company and its product on blogs and websites
- whether the company has been sued for deceptive business practices
- Check with your state Attorney General for complaints about any company you're considering, although a lack of complaints doesn't guarantee that a company is legitimate.

Don't pay or sign a contract in an "opportunity meeting." Take your time to think over your decision. Your investment requires real money, so don't rush into it without doing some research first.

SOUTH DAKOTA OFFICE OF ATTORNEY GENERAL

**CONSUMER
PROTECTION**

1302 E Hwy 14 Ste 3 • Pierre SD 57501   consumerhelp@state.sd.us

1-800-300-1986

This handout is for informational purposes and should not be construed as legal advice or as a policy of the South Dakota Attorney General. If you need advice on a particular issue, you should consult a private attorney or other experts.

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Ask your sponsor for the terms and conditions of the plan, including:

- the compensation structure
- your potential expenses
- support for claims about how much money you can make
- the name and contact information of someone at the company who can answer your questions

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 and traditional tip-off to a pyramid scheme.

Keep in mind that when you recruit new distributors, you are responsible for the claims you make about how much money they can earn. Be honest, and be realistic. If your promises fall through, you could be held liable, even if you are simply repeating claims you read in a company brochure or heard from another distributor. If you don't understand something, ask for more information until it is absolutely clear to you.