



A weekly question/answer column

**How Can I Tell A Pyramid Scheme From
A Legitimate Multilevel Opportunity?**

Barbara Rowe answers:*

Multilevel marketing is a lawful and legitimate business method which uses a network of independent distributors to sell consumer products, usually in the consumer's home. Distributors have the opportunity to set their own hours and to earn money based on their effort and ability to sell consumer products supplied by an established company. Distributors may also build and manage their own sales force by recruiting, motivating, supplying and training others to sell products.

A pyramid scheme, in its purest form, is characterized by a plan in which people invest in the right to sell the investment. Some promoters of pyramid schemes, which are illegal, attempt to make their schemes look like legitimate multilevel marketing companies. They may take on a line of products and claim to be in the business of selling them to customers. But little effort is made to actually sell the products. Instead, money is made in typical pyramid fashion, from recruiting new distributors.

If you are approached to invest, here are some guidelines that may help you determine if its an authentic multilevel business structure or a pyramid scheme.

- Take your time. Do not be rushed into signing up. An opportunity to build business in a legitimate multilevel structure will not disappear overnight.
- Ask questions. Who are the company's officers? What is their experience? What makes them think this business will work? If they sell products, how much do they cost? What is their true market value? What sources of supply are available in your area? What kinds of research have been done? What is the average earnings of active distributors?
- What is the start-up fee or what purchases are required? If the cost is substantial, be careful. The start-up fee in legitimate multilevel companies is generally small (usually for a sales kit sold at or below company cost). Pyramid schemes make all of their profit on signing up new recruits, therefore, the cost to join is usually high.
- If you could be stuck with unsold inventory, beware. A legitimate company should offer and stick to buy-backs for at least 80 percent of what you paid.
- Consult with others who have had experience with the company and the promoters. Check to see if any products are actually being sold to consumers and how consumers respond. Pyramid schemes are not concerned with establishing a market through repeat sales to satisfied product users.
- Get written copies of all available company literature, including an audited financial statement, and verify all information. Do not assume that official-looking documents are accurate or complete. Check out the company with your local district attorney, the state

attorney general's office (801-530-6601) or the Better Business Bureau (801-892-6009, 24 hours).

- When someone offers to make you rich overnight, your best defense is healthy skepticism. If it sounds too good to be true, it probably is.

* Barbara Rowe is Utah State University Extension Family Resource Management Specialist