



*International Association to Expose,  
Study and Prevent Pyramid Schemes*

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## What About This One?

*How  
to tell the difference  
between legitimate direct  
selling and pyramid recruitment schemes*  
*(Based on Audio Dialogue of Pyramid Scheme Alert President,  
Robert L. FitzPatrick and Author/Consumer Educator, Eric Scheibeler*

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*In this economy, there is a very real need for people to develop legitimate income. Millions of people are struggling not only for security but also seeking a way to realize hopes, dreams and ambitions. Good and legitimate options for earning money and realizing dreams are available today but there are also bogus income opportunities, masquerading as direct selling, multi-level marketing (MLM) or network marketing. These financial traps exploit these very real needs and hopes. We created this document as a guide to help you evaluate these options and make an educated decision.*

*Solicitations to join multi-level marketing income schemes seem to be everywhere – at family gatherings, at the office, at the supermarket, at a party with friends, in the neighborhood, even at church!*

*Yet, [verifiable data](#) from a representative sample of multi-level marketing companies reveal, conclusively, that 99% of all consumers who join as salespeople (IBOs, Associates, Coaches, etc.) lose money. Some people lose a lot of money, take on more debt, jeopardize or even lose legitimate jobs and work, waste months or years of time.*



*Many people damage their relationships with the friends and family they involved or tried to recruit. Additionally, it is verifiable that on average more than 50% of all people who invest as salespeople in MLM companies quit in less than a year. For some MLM companies the “churn” rate is even higher. Many companies conceal the actual number.*

## So, given these massive losses, failures and harmful consequences, why do so many people join?

Actually, almost no one “joins” multi-level marketing. Nearly all are *recruited*. They are *lured*, and the MLM lure is nearly *irresistible*. Here are a few of the most common lures:

- **Need for money and income:** More people than ever are out of work, don’t earn enough, face foreclosure, possible layoff, or have too much debt. MLMs promise a solution, a pathway to income and wealth – a powerful lure when the need is so great.
- **False promises and claims:** To support the income lure are false claims of easy money, steady income, early retirement and annuity income, all backed with testimonials that “anyone can do it.”
- **Miracle Products:** MLM promoters often tout their products as miracle cures for cancer, diabetes, obesity, or arthritis, etc. They say the products “sell themselves.” Others promote “new technology” that they claim “*everyone will have in their homes.*”
- **Hope and Dreams:** Promoters tell the new recruits to imagine having a lot of money, to envision purchases they would make, debts they would eliminate, and benefits for family and children. Speakers and recruiters lead people in “dream” sessions in which they are told to remember long forgotten hopes and goals. They lead the newcomers to believe it is all possible with the MLM system. They lead people to believe they are joining a crusade for good and that success is very likely in a “people helping people win/win” business model.
- **Trust, or, Can’t Say No:** Most people are invited by someone they know, like and trust. Many people join just because it is so difficult to say no to friends, relatives, and colleagues.
- **Celebrities Involved, So It Must Be True:** Famous and trusted figures sometimes are associated with the MLMs or even endorse them. Politicians take advantage of MLM crowds and give the impression of endorsement; celebrities collect large fees to speak or perform at meetings; authors hawk books at the MLM meetings adding their credibility. Even famous religious figures may offer prayers at meetings, implying a holy stamp of approval. Many people believe the schemes are legitimate based on associations with celebrities and authorities.
- **Behind the Smoke and Mirrors:** While people are responding to friends, imagining wealth, reviving hopes and believing they have a real opportunity, the MLMs hide the hard facts. They conceal shocking rates of consumer losses, high prices for their products or actual lack of consumer demand for them. They cover up the quitting rates each year, the lack of retail customers, and the high costs of staying in the schemes. They also hide realities of true income – after expenses – of the upper levels who are touted as wealthy. Many turn out to be living on credit cards and “fake it till you make it” lifestyles. Some of the MLM leaders, it turns out, make the majority of their money as speakers and promoters, not from selling products or services. This is kept secret from the recruits who think the leaders became millionaires as salespeople for the company and are worthy role models.

## **When they do quit, why don't more people register fraud complaints with the police, the Better Business Bureau or the Attorney General?**

Many people who stay in MLM, despite losses, continue to *believe* the story of income opportunity. They maintain *hope* that their efforts will someday pay off. To keep their position on the chain, they keep buying and paying. Of the millions who quit each year, most still believe that – even though they failed at it – the multi-level marketing program is workable. The only reasons a person might fail, they were told emphatically and repeatedly, include laziness, lack of ambition or fear of success. Failure is due, they are told, to poor character, lack of adequate effort or refusal to follow the “success system.” In short, the people who fail – they were told and believed – are just “losers” or “quitters,” who have no one to blame but themselves. So, most people, when they quit – and most do quit in a year or so – do so silently, shamefully and with great personal disappointment *in themselves*. They believe the reason for their financial loss was entirely their own making.

## **Well, then, why don't all those people at least warn others not to make the same mistake or tell them the chances for success are not what they are represented to be?**

In addition to “self-blame” there are also seven other reasons people stay in or, when they quit, keep their “failure” to themselves.

- 1. Shame** – Who wants to publicize their own folly?
- 2. Embarrassment** – Most people enrolled friends, family and neighbors. Do they now want to shine the light on how they harmed people who trusted them?
- 3. Self-incrimination** – All pyramid schemes make each victim, to some extent, also a perpetrator if they attempted to recruit others. Blowing the whistle might be legally self-incriminating.
- 4. Fear** – MLMs have been known to vilify, bully and intimidate whistle blowers or even to sue them in court. They are shunned as “losers” by the very people who professed to love them for years when they were buying into the “success system.”
- 5. Loyalty** – Most people are recruited by friends or relatives, some of whom may still participate in the scheme.
- 6. Cutting Losses** – The victims of MLM schemes (99% of all participants each year) have already lost significant time and money. Some may have quit their jobs, taken on more debt, fallen behind on existing debts or neglected their work or families. Their immediate and urgent need is to cut their losses and rebuild their personal and financial lives.
- 7. Indoctrination** – The MLM has taught many to believe that to even consider information that is in any manner critical of “their business” is to succumb to “negative.” (In reality, every legitimate business owner evaluates a market and his or her ability to prosper in it.) Consumers often quit, without ever realizing they were defrauded but rather believing that they somehow failed when “so many others were succeeding.”

**So, how can a consumer tell the difference between a real income opportunity that is based on direct selling and a money trap that is based on pyramid recruiting?**

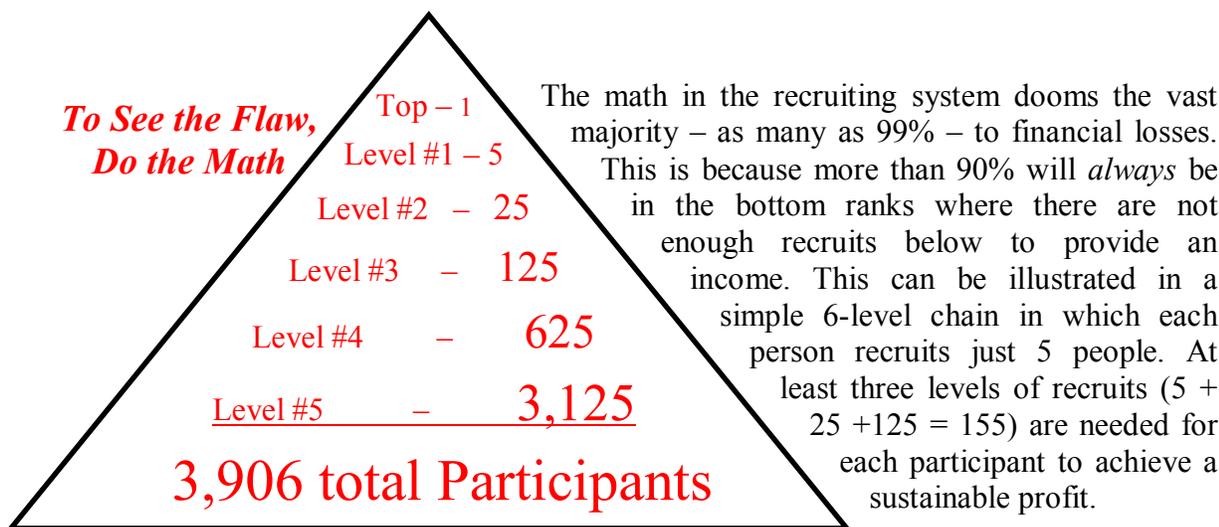
**False Profits: The Flaw in the MLM Model**

Multi-level marketing companies appear to be traditional direct selling businesses in which individuals retail products that they have purchased from a supplier company at a wholesale price. The difference between the wholesale price and the retail price is the profit to the sales representative.

Yet, in the cases of most multi-level marketing companies, very little product or service is actually sold to anyone other than those recruited. Even in those companies where some products are retailed, virtually none of the salespeople earns a sustainable profit from just retailing products. The average number of retail customers per recruit is far too small to support a retail business. The cost of selling is too high. The time required makes it not worth the effort.

The retail selling only exists as camouflage. The income promise is not based on "direct selling" but on recruiting others into the "opportunity." The product purchases mask a money transfer. 40-50% of the price paid by the recruits goes to the recruiters.

A skewed commission structure links each new recruit to those above. The upper levels receive commissions from the company based on the volume of purchases and sales made by all the recruits below, and this design uses the losses of those at the bottom to enrich the top few recruiters. These "leaders" are exceptionally charismatic and pose as great servants to others. The sad reality is their income is derived from the ongoing investments and losses of the very people who trust them the most.



Since only those with three levels below them are profitable, only the Top person and the 30 other individuals in levels #1 and #2 qualify. Each of the people in next three levels below does not have enough "downline" to generate a profit. This means that only 31 out of 3,906, or less than one percentage in the six-level chain, have as many as three levels below them and are profitable. The math dictates that more than 99% are unprofitable based on their position. The results are the same in the highly touted "binary plans"

where you sponsor two and build an “A” leg and a “B” leg of consumer investors.

This basic formula holds true no matter how much further the chain extends. Approximately 99% of *all* participants are *always* at the bottom of the chain where profit is not possible. *Profit depends on position*. Only a few can be in the “winning” positions at the top.

The trick of multi-level marketing is to cover up this reality and to convince each and every enrollee that he/she can succeed by building a large and deep “downline.” Recruits are told that the program is a formula for wealth for all. They are led to think they are starting at the top. In fact, they are at the dead bottom.

The only way the bottom levels could recoup their money by recruiting new distributors under them, would be if the scheme could go on *forever* and there were an *infinite* number of people to join.

Of course, this is not true. Yet, the schemes seem to go on forever because new recruits do not know that they are simply part of the next crowd of trusting hopefuls. They don't understand they are being run through at a loss, only to then be replaced by the next wave of recruits who will replicate the process. While the scheme is structured as an “endless” chain, and makes promises to new recruits as if it were “unlimited” and could fulfill its promises of success to all, in practice, the chain keeps breaking at the bottom and being “repaired.”

Facing certain failure and already losing money, at least 50% at the bottom will quit each year, year after year. The MLM companies then replace them with new recruits, and the scheme continues to pull in money – at the expense of all the new recruits at the bottom.

## **Okay, besides watching out for a recruitment-based income proposition, what else should I be looking for to spot a scam?**

### **Ask these Questions:**

#### **1. Do you have to *pay* for your sales job?**

Beware of any scheme where you have to first pay money for the chance to make money from selling or recruiting.

***Key terms to watch out for:*** *Registration fee; renewal fees; “back-office” charges; website charges; certification test costs; “success system”; auto ship.*

#### **2. Is it *really* about selling?**

Could you sell enough of the product to customers – at the retail price – to earn a sustainable profit? Could you do it month after month, without recruiting other salespeople or making promises about “income”? *If not, watch out!*

***Key terms to watch out for:*** *Anyone can do it; no selling required; no sales experience needed; our product sells itself; virtually no selling costs; make money while you sleep; just invest 3 hours a week.*

### **3. Is it actually about recruiting?**

Does the company or your sponsor urge you to sign up new salespeople even before you have made any money from selling products to retail customers? Do they urge you to convert customers into salespeople? *If they do, run!*

**Key terms to watch out for:** *fast start; fast track; customer acquisition bonus; build “structure”; right leg and left leg; 24 hour game Plan*

### **4. Are you buying or selling?**

Do the recruiter and the upline make money when you, the salesperson, make a purchase (even if you don't make a sale)? *If they do, put your wallet in a safe place!*

**Key terms to watch out for:** *Buy from your own store and find others to do the same; Gain points on your own purchases; earn rebates on your purchases; Be your own customer; You can't sell what you don't buy; Meet your minimum quota to start receiving commissions; Be a billboard for your products; 100% self-use; product loyalty.*

### **5. Are you paying to be trained and “motivated” by the company (or upline) you work for?**

Do the company or your sponsors charge you for company-related training, rallies and meetings? *If so, they may be profiting and you may be getting scammed.-*

**Key terms to watch out for:** *You really need to attend this seminar; you need to get certified; learn from the masters; you have to invest to succeed; are you a winner or a loser; millionaires who can help you do what they have done, they have helped thousands become “free.”*

### **6. Does the company provide enough information for you to do your own “due diligence?”**

Does the company disclose enough information for you to honestly evaluate the “opportunity?” Do they disclose the true average incomes, competitive pricing of products, dropout rates of the salespeople, actual business costs for selling, all sources of income for the top people, and how much the upper people gain on each sale you make? *If not, beware of what they're hiding.-*

**Key terms to watch out for:** *“Disclosures” that only count the “active” sales reps; disclosures that use percentages, not real numbers for counting sales people at each rank; “averages” that include the top 1%, skewing up the average for all; absence of data on business costs; data that omits dropouts; data that does not reveal how many are recruited each year, only how many are “active” at year-end; data that does not disclose how much income comes from personal selling and how much is based on sales and purchases of those recruited. Ask what the average net income is for all distributors after expenses. Ask what is the attrition (drop out) rate as every company has these figures. Would you invest in a franchise if you knew in advance that 99% before you had lost money in the business?*

## Conclusion: Don't be Tricked by Merchants of Deception

1. Even in today's Recession, real and legitimate income opportunities are still available. Some may require training, others more education, and others involve skills, experience or great persistence and maybe a little luck too. But no matter what the type of work or the qualification, a consumer still needs to do his own due diligence. Yet, in multi-level marketing the promoters often claim that doubts and questions are unnecessary or even a sign of "negativity."

Don't be pressured. Ask questions. Find out what happened to others who invested. What are the odds of success? What are the costs? If it is sales, ask about the market, comparative pricing, consumer demand and the time required. Evaluate the requirements against your own strengths and your own interests. Don't be *sold*.

2. Everyone knows the hazards of doing business with family and loved ones. Broken trust can destroy a marriage, damage friendships and disrupt social connections. There are good reasons to maintain real boundaries between friendship and commerce.

Yet, multi-level marketing promoters claim that these boundaries don't exist and that all relationships can and should be commercialized, that *everyone* is a *prospect*. Your friends and family are called your "warm list."

Before recruiting friends, family or church members, consider what could be lost when things don't pan out.

3. In the end, it is *your* money, *your* time and *your* life. The decision and the action you take are your own. Multi-level marketing uses many *group* pressures to enroll each individual. They hold large and exciting meetings with rousing music. They may sponsor sports events, feature famous celebrities, offer inspiring testimonials, and charm you with smiles, hugs and charismatic speakers. They may lead you to dream and envision wealth, while offering little or no facts

Don't be swept away. Think for yourself! For additional resources, news, facts and analysis of multi-level marketing, take time to study the Pyramid Scheme Alert website, [www.pyramidschemealert.org](http://www.pyramidschemealert.org).