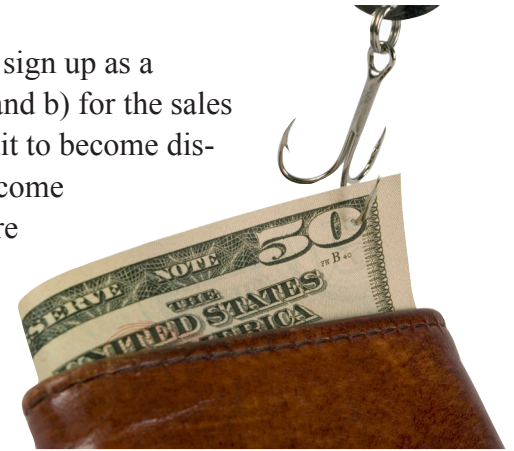


Pyramid Business Plans

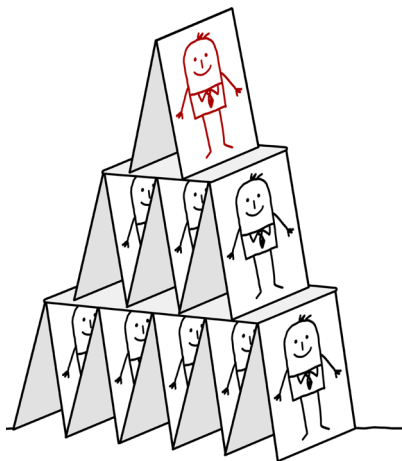
Multilevel marketing, network marketing, or pyramid business plans are a way of selling products (such as fitness powder, vitamins, or kitchen cookware) through distributors (sales agents who sell the products). Then, distributors earn sales commissions not only for their own sales, but also for sales made by other people they recruit to sell the products. NOTE: Sales commission is money that a salesperson earns based on the amount of sales completed. For example, if a salesperson earns 15% commission on sales — and sells \$1,000 of the products, the sales commission is \$150 (\$1000 times .15).

Multilevel marketing or pyramid business plans promise that if you sign up as a distributor, you will receive a sales commission: a) for your sales, and b) for the sales of those people you recruit to become distributors. Those you recruit to become distributors may be friends, family, or others. People you recruit to become distributors are referred to as your “downline.” The products that are sold are used only to make the business look legal. The real money-making goal of pyramid plans are to recruit distributors who recruit other distributors — not the selling of products.



BEWARE — If a sales business opportunity offers to pay you commissions for recruiting new distributors! Because most states outlaw this type of business, which is known as “pyramiding.” State laws say that a legal business plan should pay sales commissions for the sale of products to customers — not for recruiting new distributors. Why is pyramiding illegal? Because the only people who make money are the people who started the pyramid business plan and quickly recruit as many distributors as possible before the pyramid plan crashes. Plans that pay commissions for recruiting new distributors always collapse when no new distributors can be found. When a plan collapses, all distributors lose their money except those at the top of the pyramid (who started the pyramid plan).

If you’re thinking about joining a multilevel business plan, take time to learn about the plan by getting answers to the following questions: 1) What’s the company’s history? 2) What products does this company sell? 3) Are the products good? 4) Does the company have written evidence to back up the claims about its product? 5) Is the product priced right? 6) Will the product appeal to many customers? 7) How much is the investment to join the plan? 8) Is a minimum monthly amount of sales required to earn money? 9) Will you be required to recruit new distributors to earn your money?



Be skeptical (have doubts) if a distributor tells you that for the price of a Start-Up Kit or "inventory" of sales booklets and products (such as a set of knives that may cost \$500 or more), you’ll be on the road to riches. For the Start-Up Kit, you will end up spending your money to: 1) Attend training classes or buy training books. 2) Buy sales leads — names of customers who may be "fake customers." 3) Purchase products to sell such as knives or health juices.

Your Legal Responsibility

If you decide to become a distributor, you are **legally responsible** for: 1) Claims (statements or promises) you make about the company and its products. 2) Claims you make about how much a new distributor you recruit will earn. The Federal Trade Commission (FTC) advises you to verify (check out) any claims you hear or read before repeating those claims to another distributor you are trying to recruit. If you are not honest about business plan and earnings, you may be sued in court case and lose. The FTC suggests you use common sense and consider these tips as you make your decision about multilevel marketing plans.

- Avoid any plan that includes commissions (bonus money) for recruiting additional distributors. It may be an illegal pyramid plan.
- Beware of plans that ask new distributors to purchase expensive products to sell and training books. These plans may be pyramids in disguise.
- Beware of plans that say you will make money by "continued growth of your downline" — that is, the number of distributors you recruit. This is a illegal pyramid plan.
- Beware of plans that claim to sell miracle products or promise huge earnings. Ask promoter to prove claims in **writing**. Written documents may used to sue the promoter (who sold you the business) in court case.
- Beware of skills — “decoy” people paid by a plan’s seller to lie about the money you can make.
- Don’t pay or sign any contracts in an “opportunity meeting” or any other pressure-filled event. Take the paperwork home and think over your decision. Talk to family member, friend, accountant, and lawyer.
- Do your homework! Check with the FTC about any sales business you are considering — especially when claims about the product or your future earnings seem too good to be true.



For more information, visit www.ftc.gov. Search for "Multilevel Marketing."

QUICK CHECK:

1. a) List the names of 3 types of business plans that sell products through distributors. b) Define “distributors.”
2. a) What is sales commission? b) If salesman earns 20% commission and sells \$3,000, what is the sales commission for that sale?
3. If you sign up as a distributor, what 2 things do these plans promise you will receive?
4. a) Define "downline." b) What is the real goal of pyramid plans?
5. a) Of what should you beware? b) Why?
6. a) State laws say that legal business plans should only pay sales commissions for what? b) And not for what?
7. Why is pyramidizing illegal?
8. a) Who loses money when the pyramid plan crashes? b) Who does not lose money?
9. List 3 of the 9 questions you should take time answer before buying into a sales business plan.
10. List 3 things you may spend money to buy for the Start-Up Kit.
11. If you become a distributor, for what 2 claims are you legally responsible?
12. What does the FTC advise you to do?
13. Briefly list 4 suggestions from the FTC that start with the word "Beware."
14. When may written documents be used?
15. Define "skills."
16. After age 18, you may be approached by a person who wants to sell you a sales business opportunity that promise to make you quick and easy money. List 3 tips from this lesson that will help you spot illegal pyramid business deal.
17. If that person does not want to give you written documents that prove his/her promises, what should that make you think about the sales business deal he/she is offering to you?