

CONSUMER'S EDGE

CONSUMER PROTECTION DIVISION, MARYLAND OFFICE OF THE ATTORNEY GENERAL

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MULTI-LEVEL MARKETING OR PYRAMID SCHEME?

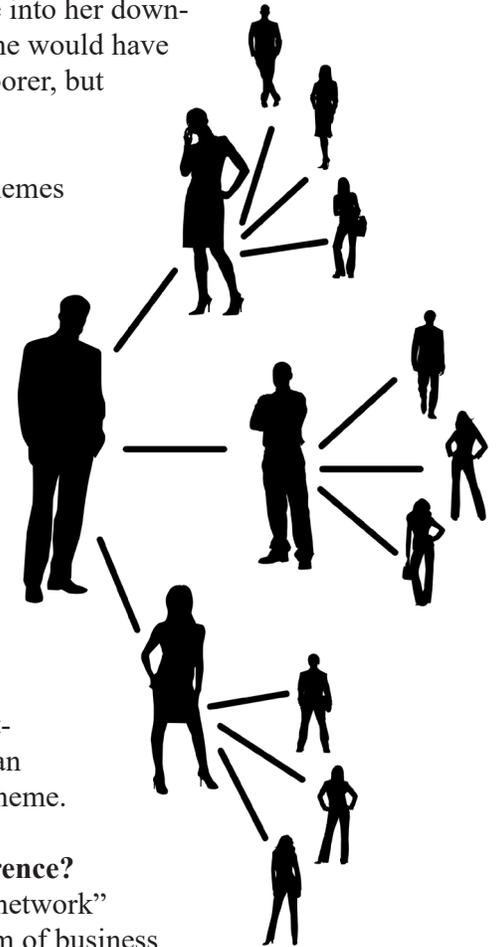
A Maryland woman answered a help wanted ad for a marketing director that promised a six-figure income. When she arrived for the interview, she was led into a room with 20 other people. They were subjected to a high-pressure sales presentation about a company that was looking for distributors to market nutritional supplements, vitamins, and jewelry.

The speaker told the woman that she could get rich, like him, by recruiting new people to become distributors. He explained that she just needed to develop a "downline" of people she would recruit into the program, people those recruits would bring in, and so on. She would earn a percentage of the sales made by all of these people, and she could eventually retire on the commissions on this ever-growing downline. She was convinced. She bought thousands of dollars worth of the company's products on credit and became part of the speaker's downline.

This story is a composite of several actual complaints made to the Attorney General's Office. It illustrates a common sales pitch for a type of illegal "pyramid scheme" that has cost some Maryland residents a lot of money, time, and effort. The woman in this story would almost certainly have lost the thousands of dollars she invested as a distributor. She would have spent more

money and many hours trying to recruit new people into her downline. Ultimately, she would have given up, much poorer, but wiser.

Some pyramid schemes call themselves "multi-level marketing programs," but there is a difference. If you are looking for an opportunity that will allow you to work at home or be your own boss, you should be aware of the differences between a legitimate multi-level marketing company and an illegal pyramid scheme.



What's the Difference?

"Multi-level" or "network" marketing is a form of business that uses independent representatives to sell products or services to family, friends, and acquaintances. A representative can earn commissions from sales that they make, and also from sales made by other people they have recruited into the program.

Some companies call themselves multi-level marketing when they are really pyramid schemes. They may market a product or service, but they teach their representatives to spend most of their time and effort recruiting new people to join the program. If the company focuses primarily on recruitment rather than sales, it's a pyramid scheme.



Pyramid schemes are not only illegal, they are a waste of money and time. Because pyramid schemes rely on recruitment of new members to bring in money, the schemes inevitably collapse when the pool of potential recruits dries up. When the plan collapses, most people, except the few at the top of the pyramid, lose their money.

The simplest form of pyramid scheme is the chain letter that asks the recipient to pay \$1.00 to each of five names on a list, copy the letter, and then send it out to new people with the recipient's name added to the list. In recent years, pyramid schemes have become more sophisticated, and many have surfaced online.

Pyramid Tip-Offs

The pyramid scheme disguised as a multi-level marketing opportunity is not always easy to spot, but is just as much of a scam as the chain letter. Here are some tips to consider before participating in a multi-level marketing program:

- Avoid any program that focuses more on recruitment of new people rather than the sale of a product or service. If the program offers to pay commissions solely for recruiting new members, look elsewhere.
- Be cautious about participating in any program that asks distributors to purchase expensive inventory.
- Be skeptical about specific income or earnings claims. Many programs boast about the incredibly high earnings of a few top performers ("thousands per week" or "six figure-income"). The reality is that most of the people recruited into the organization are not making anywhere near those amounts.
- Make sure the product or service offered by the company is something you would buy and is competitively priced. Illegal pyramid schemes often sell products at prices well above retail or sell products that are difficult to value, such as health and beauty aids, new inventions, or "miracle" cures.
- Don't believe statements from a program that it has been "approved" by the state or the Attorney General's Office. Under Maryland law, multi-level marketing companies do not register with any state office.
- Never sign a contract or pay any money to participate in a multi-level marketing pro-

gram, or any business opportunity, without taking your time and reading all of the paperwork. Talk the opportunity over with a spouse, knowledgeable friend, accountant, or lawyer. If you feel that you are being subjected to high-pressure sales tactics or are not being given enough time to review the details, go elsewhere.

If you join a pyramid scheme disguised as a multi-level marketing program, your decision will affect not only you, but everyone you bring into the program. These schemes cost thousands of Maryland residents millions of dollars each year. Many people devote a substantial amount of time trying to market these ultimately worthless ventures.

For information about Maryland law and multi-level marketing, or to report a potential pyramid scheme or other fraudulent business opportunity, call the Securities Division at 410-576-7042.



HOW TO CONTACT US

Consumer Protection Division

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- **General Consumer Complaints:** 410-528-8662
Toll-free: 1-888-743-0023 TDD: 410-576-6372
En español: 410-230-1712
9 a.m. to 3 p.m. Monday-Friday
www.marylandattorneygeneral.gov/Pages/CPD/
- **Health Consumer Complaints:** 410-528-1840
Toll-free: 1-877-261-8807 TDD: 410-576-6372
9 a.m. to 4:30 p.m. Monday-Friday
www.marylandcares.org
- **For information on branch offices** in Largo, Salisbury, Hagerstown, and a full list of offices across Maryland, visit: www.marylandattorneygeneral.gov/Pages/contactus.aspx

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