

Eight Ways to Identify an Illegal Pyramid Scheme

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The last thing you want to do is join an illegal pyramid scheme. Here are eight red flags to look for when considering joining a direct selling, MLM, network marketing opportunity:

1. **Promotions where the business opportunity is the “product.”** If there is no legitimate product or service being sold, but only the opportunity itself, then chances are, the promotion is a pyramid scheme.
2. **Products that are sold at inflated prices.** Sometimes pyramid promoters try to mask their true intent by selling a product. Often, the product will be vastly overpriced and thus unlikely to generate much retail activity, thereby indicating that the real item being sold is the compensation plan.
3. **Programs that require inventory “loading.”** A legitimate MLM opportunity doesn’t require you to buy unreasonable amounts of inventory to begin your business.
4. **Programs that require substantial initial cash investments.** According to MLM Attorney Jeff Babener, many states consider a required up-front investment of \$500 or more to be “substantial” and thus likely to attract the attention of law enforcement.
5. **Programs that require mandatory purchase of peripheral or accessory products or services.** Some pyramids seek to hide their true face by allowing a minimum price for a “start-up” kit and then compelling the investor to buy more expensive items such as training or demonstration materials. Jeff Babener believes that business-start-up kits and selling aids should be sold at company cost.
6. **Companies that don’t “buy back.”** According to Mr. Babener, “Any plan that does not agree in writing to repurchase a reasonable percentage of unsold inventory or unused sales materials for a stated time after purchase should be avoided.”
7. **Programs that pay fees for recruiting.** “A legitimate MLM opportunity will have compensation based on product sales and not on recruiting,” Babener states. If money is paid for signing up new distributors rather than for product sales, the business is likely to be a pyramid scheme.
8. **Recruiters who misrepresent potential earnings.** If the opportunity is sold as a “get-rich-quick” scheme, beware. The only people who do well are those who can sucker others into buying into a criminal confidence game.

There is plenty more information on pyramid schemes and how to spot them at www.mlmlegal.com and www.mlmattorney.com.

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Jeffrey Babener
On Assignment

On any given day you can catch [Jeffrey Babener](#) lecturing on Network Marketing at the University of Texas or the University of Illinois, addressing thousands of distributors in Los Angeles, Bangkok, Tokyo and Russia, or writing a new book on Network Marketing, an article for Entrepreneur Magazine or a chapter for a University textbook. Over two decades he has served as marketing and legal advisor to some of the world's largest direct selling companies, the likes of Avon, Nikken, Melaleuca, Discovery Toys, NuSkin, and he has provided counsel to the most successful telecom network marketing companies...Excel, ACN, World Connect, ITI, AOL Select and Network 2000. An active spokesperson for the industry, he has assisted in new legislation and served on the Lawyer's Council, Government Relations Committee and

Internet Task Force of the Direct Selling Association (DSA) as well as serving as General Counsel for the Multilevel Marketing International Association. He is an MLM attorney supplier member of the DSA and has served as legal counsel and MLM consultant on MLM law issues for many DSA companies.

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