

A Pyramid By Any Other Name Will Still Come Tumbling Down

By Elena Fawkner

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"Three Days, Three People, Retire in 30 days!

Make no mistake, People will start BEGGING you to sponsor
them in!

Take a look at this Income Projection Chart:

Level | # of Days | # Benefactored | Income Projection

1	3	3	\$70
2	6	9	\$130
3	9	27	\$290
4	12	81	\$660
5	15	243	\$1520
6	18	729	\$3520
7	21	2,187	\$8160
8	24	6,561	\$18,880
9	27	19,683	\$43,520
10	30	59,049	\$99,840
11	33	177,147	\$227,840
12	36	531,441	\$517,120
13	39	1,594,323	\$1,167,360

Days add up in a hurry and so does your downline!"

OK people ... I know how tempting this looks but REALITY check
time. This is but one example of a number of "wealth generation
programs" currently being touted online. The idea is that you
must find three people who want to join this program, you pay
\$20 to "benefactor" each of them into the program (for a total
"investment" of \$60) and you're set for life. Oh, and you have

to do it in three days. Each of your three, if they are to remain in the game and thereby derive the same wondrous riches from the program as you, must also find three people, benefactor them into the program (again within three days) and their three must find their three in three days and so on.

And, because non-performers are booted from the program, so the theory goes, the only people getting paid are the ones actively benefactoring in their own recruits, each of whom down the line contributes their "investment" of \$60.

THE "PRODUCT"

The product each person gets for their \$60 (because this is NOT, of course, a PYRAMID SCHEME - banish the thought!) is:

"Software entitled "Building an MLM Empire using the Internet", in which you Own Full Licensed Retail Rights to Market the software. Retail Value \$29.95 All Sales Are Final-No Refunds!"

OK, three points on the "product".

First, your investment is \$60. The product is worth (let's give them the benefit of the doubt) \$29.95. HELLO!?! But you get RESELL RIGHTS!, I hear you protest. That makes it more valuable than just the purchase price of the product itself. Oh yeah? Well, you HAVE to be able to sell the product otherwise the whole scheme ... er ... program would be nothing more than a wealth distribution arrangement wouldn't it? And that's against the law, and we couldn't have that.

Second, this is not "software", it's an e-Book.

Third, the title of the e-Book deviously and insidiously implies a relationship between this "wealth creation program" and MLM (multi-level marketing). MLM is a different thing altogether. For a more detailed explanation of what MLM is and what it is not, read "Not MLM! ... Why ever not?" at <http://www.ahbbo.com/notmlm.html> .

'WEALTH CREATION' PROGRAMS

OK, so what about these "wealth creation programs" then? Sounds like a great idea, right? Everybody wins! Well, think about this ... if everyone goes out and gets three people who each have to throw \$60 into the pot for their three, everybody up and down the line has effectively contributed \$60 and that's all there is in the pot. How do you get more than your \$60 back?

Ahah! you cleverly point out, those who don't recruit ... er ... "benefactor in" ... er ... SELL (yeah, that's it, SELL) the "product"

to their three gets dropped, don't they, so now the \$20 their benefactor contributed for them to join the program is still in the pot but they're not. They've forfeited their investment. THAT'S how we make money.

OK! Very good. I can see you're paying attention. Just one, teensy little problem with this brilliant plan.

It's B.S.. It's a pyramid scheme and it's ILLEGAL.

PYRAMID SCHEMES VS. LEGITIMATE MLM

In her prepared statement to the International Monetary Fund's seminar on "Current Legal Issues Affecting Central Banks" in May 1998, Debra Valentine, General Counsel for the U.S. Federal Trade Commission, had this to say about pyramid schemes:

"What is striking about these schemes is that while they are very old forms of fraud, modern technology has vastly multiplied their potential for harming our citizens. The Internet in particular offers pyramid builders a multi-lane highway to world-wide recruits in virtually no time.

"What is a Pyramid Scheme and What is Legitimate Marketing?"

"Pyramid Schemes now come in so many forms that they may be difficult to recognize immediately. However, they all share one overriding characteristic. They promise consumers or investors large profits based primarily on recruiting others to join their program, not based on profits from any real investment or real sale of goods to the public. Some schemes may purport to sell a product, but they often simply use the product to hide their pyramid structure. There are two tell-tale signs that a product is simply being used to disguise a pyramid scheme: inventory loading [recruits are forced to buy more product than they could possibly sell] and a lack of retail sales [sales are made only between people inside the pyramid, not to the public in general - sound familiar?]. ...

"[P]yramids are quite seductive because they may be able to deliver a high rate of return to a few early investors for a short period of time. Yet, .. pyramid .. schemes are illegal because they inevitably must fall apart. No program can recruit new members forever. Every pyramid .. scheme collapses because it cannot expand beyond the size of the earth's population. [Footnote 3: "Assume a pyramid scheme in which each person recruits 10 new people. There would be one person at the top, 10 beneath her, 100 beneath them and so forth. The pyramid would involve everyone on earth in just 10 layers of people with one con artist on top. The bottom layer would have more than 4.5 billion people."] When the scheme collapses, most investors find themselves

at the bottom, unable to recoup their losses.

"Some people confuse pyramid .. schemes with multilevel marketing. ... [U]nlike pyramid .. schemes, MLM's have a real product to sell. More importantly, MLM's actually sell their product to members of the general public, without requiring these consumers to pay anything extra or to join the MLM system. MLM's may pay commissions to a long string of distributors, but these commissions are paid for real retail sales, not for new recruits."

Now consider how our "wealth distribution program" above works. Which is it, do you think? Pyramid scheme or MLM? Bzzzz ... time's up. All who think it's a classic pyramid go to the top of the class.

FEDERAL TRADE COMMISSION GUIDELINES

Not surprisingly, the U.S. Federal Trade Commission ("FTC") pays close attention to so-called MLM's that are, in reality, nothing more than pyramid schemes. It regularly prosecutes the promoters of such schemes, obtaining injunctions and orders freezing the assets of the promoters to be applied in redress of victims. If you knowingly participate in a pyramid scheme, you too can be named as a defendant in such an action.

Bear in mind that as a distributor (whether you're participating in a legitimate MLM program or an illegal pyramid scheme), you're legally responsible for the claims you make about the company, its products and business opportunities. It is no defense that you're merely rehashing the same old representations made to you by the company. The FTC can require you to verify the research behind any claims you make. For more on the subject of representations and your obligation to be able to back them up, read "Not Just Six Lines ... 65 Characters" at <http://www.ahbbo.com/adsftc.html> .

In addition, if you solicit new distributors, heed the FTC's warning in its Consumer Alert, "The Bottom Line About Multilevel Marketing Plans": "You are responsible for the claims you make about a distributor's earnings potential. Be sure to represent the opportunity honestly and avoid making unrealistic promises. If those promises fall through, remember that you could be held liable."

Finally, here's the FTC's tips for evaluating a multilevel marketing opportunity:

"1. Avoid any plan that includes commissions for recruiting additional distributors. It may be an illegal pyramid. [And, by the way, calling it "benefactoring" won't help. Just a

handy hint ...]

"2. Beware of plans that ask new distributors to purchase expensive products and marketing materials. These plans may be pyramids in disguise.

"3. Be cautious of plans that claim you will make money through continued growth of your downline, that is, the number of distributors you recruit. [Don't take this tip out of context - by definition, the more people you have in your downline, the more you'll legitimately make in MLM. What the FTC is saying here is to watch out if the plan rewards you for recruiting per se, rather than paying you a commission on sales of product to the general public generated by your downline.]

"4. Beware of plans that claim to sell miracle products or promise enormous earnings. Ask the promoter to substantiate claims.

"5. Beware of shills - "decoy" references paid by a plan's promoter to lie about their earnings through the plan.

"6. Don't pay or sign any contracts in an "opportunity meeting" or any other pressure-filled situation. Insist on taking your time to think over your decision. Talk it over with a family member, friend, accountant or lawyer.

"7. Do your homework! Check with your local Better Business Bureau and State Attorney General about any plan you're considering - especially when the claims about the product or your potential earnings seem too good to be true. [Don't rely too much on the BBB though - companies pay to be listed with them so they're not as authoritative and independent as they seem. Asking whether they have complaints on file about your particular program is worthwhile, however.]

"8. Remember that no matter how good a product and how solid a multilevel marketing plan may be, you'll need to invest sweat equity as well as dollars for your investment to pay off."

By testing any opportunity against the above tips, you'll go a long way to ensuring that what you're getting yourself into is a legitimate MLM program and not an illegal pyramid. Probably the best gut check of them all though is the good old "if it sounds too good to be true, it probably is".

Hmm ... \$1.1m in 39 days for an investment of \$60 ... somehow, I JUST don't think so ...

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