Federal Trade Commission
For The Consumer
1-877-FTC-HELP
www.ftc.gov

FTC FACTS for Consumers

Multilevel Marketing Plans

Multilevel marketing plans, also known as “network” or “matrix” marketing, are a way of selling goods or services through distributors. These plans typically promise that if you sign up as a distributor, you will receive commissions — for both your sales of the plan’s goods or services *and* those of other people you recruit to join the distributors. Multilevel marketing plans usually promise to pay commissions through two or more levels of recruits, known as the distributor’s “downline.”

If a plan offers to pay commissions for recruiting new distributors, *watch out!* Most states outlaw this practice, which is known as “pyramiding.” State laws against pyramiding say that a multilevel marketing plan should only pay commissions for retail sales of goods or services, not for recruiting new distributors.

Why is pyramiding prohibited? Because plans that pay commissions for recruiting new distributors inevitably collapse when no new distributors can be recruited. And when a plan collapses, most people — except perhaps those at the very top of the pyramid — lose their money.

The Federal Trade Commission cannot tell you whether a particular multilevel marketing plan is legal. Nor can it give you advice about whether to join such a plan. You must make that decision yourself. However, the FTC suggests that you use common sense, and consider these seven tips when you make your decision:

1. Avoid any plan that includes commissions for recruiting additional distributors. It may be an illegal pyramid.

2. Beware of plans that ask new distributors to purchase expensive inventory. These plans can collapse quickly — and also may be thinly-disguised pyramids.

3. Be cautious of plans that claim you will make money through continued growth of your "downline" — the commissions on sales made by new distributors you recruit — rather than through sales of products you make yourself.

4. Beware of plans that claim to sell miracle products or promise enormous earnings. Just because a promoter of a plan makes a claim doesn't mean it's true! Ask the promoter of the plan to substantiate claims with hard evidence.

5. Beware of shills — "decoy" references paid by a plan's promoter to describe their fictional success in earning money through the plan.

6. Don't pay or sign any contracts in an "opportunity meeting" or any other high-pressure situation. Insist on taking your time to think over a decision to join. Talk it over with your spouse, a knowledgeable friend, an 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.

For More Information

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, call toll-free, 1-877-FTC-HELP (1-877-382-4357), or use the complaint form at www.ftc.gov. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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