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CASH FLOW

10 Simple Tips to Reel in More Money

Identifying Illegal Pyramid Schemes

The last thing you want to do is become part of a multilevel system that is, in reality, an illegal pyramid scheme. According to the Direct Selling Education Foundation, a pyramid scheme is an illegal scam "in which large numbers of people at the bottom of the pyramid pay money to a few people at the top. Each new participant pays for a chance to advance to the top and profit from payments of others who might join later."

Both MLM and pyramids have multilevel payment systems, but that is where the similarity ends. Network marketing is a legal, ethical manner of doing business. Pyramids are illegal, fraudulent con games. In MLM, you are a legitimate seller of a product or service and business opportunity. In a pyramid, you are a crook.

But how do you tell them apart? Jeffrey Babener, a network-marketing legal expert and attorney based in Portland, Oregon, states that there is no single authority on the subject; state and federal authorities have different ways of looking at the issue. However, in his book *The Network Marketer's Guide to Success* (written with David Stewart; Legaline Publications, 1990), Babener and

Stewart have identified red flags that may cause law-enforcement agencies to investigate a business:

- **Promotions where the business opportunity is the "product".** If there is no legitimate product or service being sold, but only the opportunity itself, chances are, the promotion is a pyramid scheme.

- **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.

- **Programs that require inventory "loading".** A legitimate MLM opportunity doesn't require you to buy unreasonable amounts of inventory to begin your business.

- **Programs that require substantial initial cash investments.** According to 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.

- **Programs that require mandatory purchase of pe-**

ripheral 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. Babener believes that business-start-up kits and selling aids should be sold at company cost.

- **Companies that don't "buy back."** According to 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."

- **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.

- **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.