

Real or Fraud?

If it sounds too good to be true, it probably is. The advice your grandma gave you is probably some great, timeless advice. I've had many clients come to my office wondering if a certain "business" was actually a business or not.

We have all heard of MLMs or Multi Level Marketing plans. Many of these are above board, honest businesses. Some, however, prey on people who hope to get rich quick. These usually fall into the class of ploys called "Pyramids." Pyramids are illegal, but many of these pyramids disguise themselves as an MLM in order to stay within the letter of the law. I will discuss two things today:

- 1) **How do you tell a legitimate MLM from a Pyramid disguised as an MLM?**
- 2) **Once you've decided it's a legitimate business, is it a *good* business?**

What is a Pyramid? "A fraudulent, illegal, business practice in which the chain of distribution of products is artificially expanded by an excessive number of distributors selling to other distributors at progressively higher wholesale prices." SOURCE: Barron's Business Guides-Dictionary of Business Terms.

The first thing you should do to research a potential business is perform a quick Internet search. If all you find are websites where people are trying to get you to join (selling the business and not the products), then you might be looking at a pyramid. A quick Internet search of several reputed pyramids leaves an individual wondering what the product is!

The classic difference between MLMs and pyramids is what is being sold. A pyramid sells the "opportunity" while an MLM sells a product. What is the product? Most pyramids will veil their scam by "selling" a product. If the product is something which is no different than what is sold at any local department store, then why would I buy from you and not go to a store where I can hold, see, smell or even taste the product?

Most pyramids make money by selling "kits" to unsuspecting people hoping to find an opportunity to sell a product. They do not expect their sales force to move much product. Does the company require you to pay a large investment to join? Of course a modest amount of money for a starter kit or inventory is expected, but be sure the "starter kit" is appropriately priced and not a veil for charging you money for nothing. Look closely at the training offered... if most of the training is in recruiting others to join and not how to increase sales, this should be a red flag. The company in question is probably making more money from recruiting than from sales of product.

The company you are considering should not charge for the "opportunity" to build a team! Extra sales personnel increases the MLM's worth so they should not charge you for signing other people up. You should not have to buy your way to a specific level within the company. You should earn your promotions!

If the company charges a fee for training, examine the charges. Quite often, members put money in a kitty to pay for a weekly meeting room... that's okay. However, many pyramids make money from their sales force by charging for training. If they charge a fee more than hotel, meal expense, meeting facility expense this may another indication of a pyramid.

Now that you've found a legitimate MLM, is it a good business? Here are a few quick tips to help you decide if you can really pursue this as a money making business.

- Typical wholesale to retail markup is double from wholesale to retail. That is, if I buy a product for \$2 at wholesale, I need to sell it for \$4 retail in order to make a modest profit. Some legitimate MLMs try to convince their sales force they can make it by buying the product for a 20-30% discount saying the sales force does not have to pay for a facility and other associated expenses. However, if you look at the expenses you will have, you still need to have the double markup to make a profit. Most of your expenses will center on advertising, but you will also have some utilities, postage and travel to sales training. These expenses add up. A lower markup does not signify a scam or a pyramid, but it just may not be a profitable business.
- What is the shipping time? Product should be shipped to you or your customers within a matter of days, not weeks. Think about any ordering you've done from mail order catalogs. Most companies ship their product right away. I just ordered some products from two different companies off the Internet the week before Christmas. I received notice of shipping the day after I placed the order. A good MLM should also ship quickly. In our family business, my mother used to say if our customers had to wait a week for their shipment, then their reorder would come that much later as well. Time is money!
- According to the Direct Marketing Association, you should look for a company that will buy back unused inventory at a price at least 90% of what you paid for it. If you do not have that assurance, rethink the offer!
- A good MLM can feel like a second family. You will likely find encouragement for your personal endeavors as well as your sales goals. In any MLM, the "upline" will get a small commission from the parent company for your sales. This is generally a legitimate reward for their time and effort to train you. If your MLM feels like a burden and not a joy, then it's time to get out.

Some suggested resources for checking out businesses: Federal Trade Commission (www.ftc.gov); Rip-Off Report (www.ripoffreport.com); The Direct Marketing Association (www.the-dma.org); Better Business Bureau (www.bbb.org or the local BBB at 949-2989).

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