

FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

Lotions and Potions: The Bottom Line About Multilevel Marketing Plans

Lose weight!

Firm up!

Look better!

Live longer!

‘Tis the season for consumers to be confronted with a wide range of health, beauty and fitness products and promotions. Many of these items aren’t available on store shelves and are sold only through distributors.

What Are You Buying?

Many companies that market their products through distributors sell quality items at competitive prices. But some offer goods that are overpriced, have questionable merits or are downright unsafe to use.

The Federal Trade Commission (FTC) warns consumers to apply a healthy dose of caution before buying products advertised as having “miracle” ingredients or techniques and guaranteed results. Many of these “quick cures” are unproven, fraudulently marketed and useless or even dangerous.

Before using one of these products, the best prescription may be to check with a health professional.

What Else Is For Sale?

Some distributors sell more than diet and exercise plans, vitamin supplements or wonder creams. Many may sell “opportunities,” too — a chance for you not only to buy, but also to market, the products. In addition to describing the benefits of their product or program, these distributors may encourage you to become a distributor.

If you sign up as a distributor, you may be promised commissions or other rewards — for both your sales of the plan’s goods or services *and* those of other people you recruit to become distributors. These plans, often called “multilevel marketing plans,” sometimes promise commissions or rewards that never materialize. What’s worse, consumers are often urged to spend or “invest” money in order to make it.

Watch Out For Pyramids

Steer clear of multilevel marketing plans that pay commissions for recruiting new distributors. They’re actually illegal pyramid schemes.

Why is pyramidizing dangerous? 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 — end up empty-handed.

How to Evaluate a Plan

If you're thinking about joining what appears to be a legitimate multilevel marketing plan, take time to learn about the plan before signing on.

What's the company's track record? What products does it sell? How does it back up claims it makes about its product? Is the product competitively priced? Is it likely to appeal to a large customer base? What up-front investment do you have to make to join the plan? Are you committed to making a minimum level of sales each month? Will you be required to recruit new distributors to be successful in the plan?

Use caution if a distributor tells you that for the price of a "start-up kit" of inventory and sales literature — and sometimes a commitment to sell a specific amount of the product or service each month — you'll be on the road to riches. No matter how good a product and how solid a multilevel marketing plan may be, expect to invest sweat equity as well as dollars for your investment to pay off.

Your Responsibilities

If you decide to become a distributor, remember that you're legally responsible for the claims you make about the company, its product and the business opportunities it offers. That applies even if you're simply repeating claims you read in a company brochure or advertising flyer.

When you promote the qualities of a product or service, you're obligated to present those claims truthfully and to ensure there's enough solid evidence to back them up. The Federal Trade Commission advises you to verify the research behind any claims about a product's performance before repeating those claims to a potential customer.

Likewise, if you decide to solicit new distributors, be aware that you're responsible for any claims you make about a distributor's earnings potential. Be sure to represent the opportunity honestly and to avoid making unrealistic promises. If those promises fall through, remember that you could be held liable.

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, 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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