



DIRECT SELLING ASSOCIATION

New Economic Analysis Clarifies Approach to Pyramid Scheme Identification

Pyramid schemes should be prosecuted to the fullest extent of the law. It's crucial that policymakers, regulators and others understand what constitutes a pyramid.

Direct Sellers and the Purchase of Products for Internal Consumption

The NERA study, "An Economic Analysis of the Criteria Used to Distinguish Legitimate Direct Sellers from Pyramid Schemes" (October 2015) clarifies that internal consumption, when people involved in direct selling purchase products for their own use, is not, on its own, indicative of a pyramid scheme and is prone to producing false positives.



Affirmed in 2004 by FTC staff advisory opinion

In any type of retail, many people pursue sales to purchase products at a discount for themselves, family or friends. In identifying a pyramid, the central inquiry is whether or not products are consumed, not who's consuming them.

What defines a Pyramid Scheme?

Compensation is provided primarily for recruitment instead of the selling of products and services.



■ Derived from the Koscot decision (1975)



■ Affirmed in Ninth Circuit Court of Appeals in *FTC v. BurnLounge* (2014)

People Pursue Direct Selling for Different Reasons

Entrepreneurial Motivations



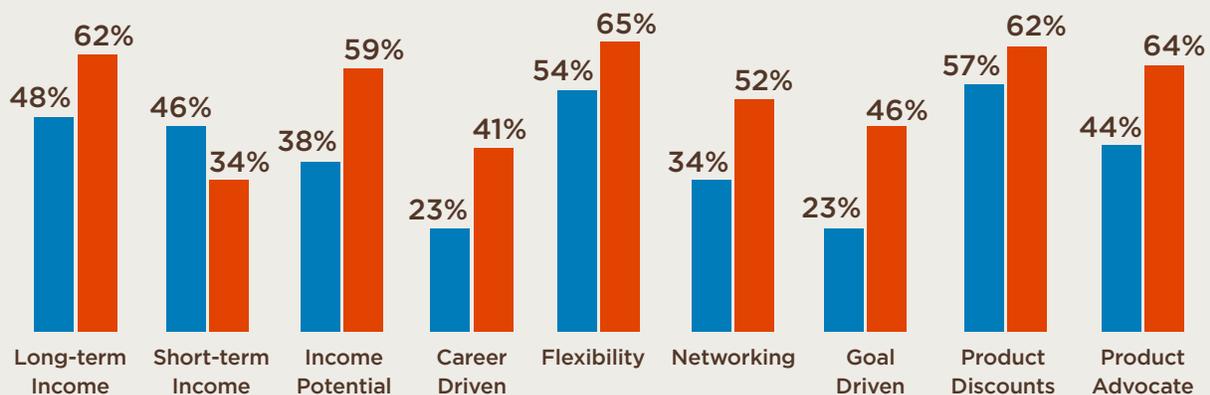
Lifestyle Motivations



Product Motivations



■ Become a Direct Seller
■ Continue as a Direct Seller



Source: DSA 2014 National Salesforce Study

According to DSA research, direct selling is an overwhelmingly part-time pursuit. Among the many motivations, people pursue direct selling to receive product discounts, achieve flexibility and gain a work-life balance. Additionally, many choose to leave the business after accomplishing a personal or professional goal.

For more information on the NERA study, visit nera.com/publications/archive/2015/an-economic-analysis-of-the-criteria-used-to-distinguish-direct-.html