

ANTI-PYRAMID LANGUAGE MYTH VS. FACT



DIRECT SELLING ASSOCIATION

MYTH: Direct selling companies are pyramid schemes.

FACT: Direct selling companies and pyramid schemes are not the same. There are a number of important differences between direct selling companies and pyramid schemes. Direct selling companies offer protections and guarantees to those that interact with them so their sellers and customers can be confident they are safeguarded. Also, member companies of the Direct Selling Association (DSA) adhere to a rigorous set of standards as part of its Code of Ethics, including requirements that member companies buy back unused inventory at no less than 90% of the original net cost.

Bad actors in the marketplace sometimes masquerade as direct sellers, harming consumers and legitimate direct selling companies. Pyramid schemes are illegal and should be prosecuted to the fullest extent of the law. At this time, there is no statutory definition of a pyramid scheme in federal law. For this reason, the Direct Selling Association (DSA) supports legislation that codifies long-understood case law.

MYTH: All direct sellers are required to purchase inventory themselves to start selling.

FACT: This is simply not true. Many direct selling companies allow independent consultants to take orders from customers without requiring them to purchase inventory themselves. Typically, independent consultants also decide to purchase products for their own use because they love what's offered or want to familiarize themselves with various product and service lines.

While some individuals in direct selling may purchase inventory to sell, members of DSA abide by a Code of Ethics with key provisions that protect direct sellers against financial loss. In contrast, bad actors may engage in the practice of inventory loading – where individuals are convinced to buy large amounts of products or services that cannot be easily sold to others or returned. This practice is unethical and harms direct sellers. It is also a warning sign of a pyramid scheme.

To combat this unethical business practice, which harms consumers and those involved in the direct selling industry, DSA is proud to support legislation which provides the FTC guidance to prosecute any direct selling company that fails to institute such a policy. While this provision is already mandatory for all DSA members, this legislation is an unprecedented step to ensure that this critical consumer protection is in place across this industry.

MYTH: The direct selling model involves high financial risks for those involved.

FACT: One of the many reasons why direct selling is appealing is its low cost of entry and relatively low financial risk. While the average cost of entry in direct selling is \$106.40, the cost to other types of independent consultants in other industries, such as realtors and restaurant franchise owners, may be anywhere from \$1,000 to well over \$100,000.

MYTH: Direct selling takes advantage of vulnerable populations, such as certain Hispanic American communities.

FACT: This is simply not true. Hispanic Americans represent 22% of the some 20.5 million people involved in direct selling, and for whom direct selling represents a key entry point to join the growing ranks of Latino business owners. Unfortunately, there are bad actors in the marketplace that sometimes masquerade as direct selling companies and target vulnerable populations. That is why it is critical that safeguards are put in place to educate consumers and sellers and to guard against pyramid schemes. For that reason, DSA supports legislation which protects the financial security of Latinos and all Americans by clearly defining the difference between a direct selling company and pyramid scheme.

MYTH: The primary reason people get involved in direct selling is to make a large income.

FACT: Direct sellers become involved and stay in the business for a wide variety of reasons. These include being able to buy products and services they like at a discounted price, flexibility and work-life balance, or the entrepreneurial opportunity to earn supplemental income, among others.

For most Americans involved in direct selling, the revenue they earn is not their primary income but the way to a family vacation, presents for the holidays or just extra spending money. In fact, most independent contractors only work part time in direct selling, and many have other jobs.

MYTH: A majority of people involved in direct selling never make a profit.

FACT: People involved in direct selling are motivated by and have different metrics of success. They may be interested in the flexibility provided by direct selling, or look to supplement their existing income. A majority do not use direct selling as their primary source of income. Instead, they look to use the supplemental income they earn from direct selling for family vacations, gifts for the holidays, or just extra spending money. In fact, most independent contractors only work part time in direct selling, and many have other jobs.

MYTH: Legislation that defines pyramid schemes and makes clear that personal use of products is legitimate will weaken the government's ability to prosecute pyramid schemes.

FACT: The Anti-Pyramid Promotional Scheme Act does nothing to change the FTC's existing enforcement authority against illegal pyramid schemes. In fact, legislation would define a pyramid scheme in federal statute for the first time, giving much needed clarity to all involved in the direct selling industry.

Additionally, this will strengthen the FTC's ability to prosecute bad actors by formally banning the unethical practice of inventory loading, where individuals are convinced to buy large amounts of products or services that cannot be easily sold to others or returned.

None of the key provisions in this legislative language are overly complicated. It simply says that a pyramid scheme exists when compensation is based primarily on recruitment rather than retail sales, and that personal use is a legitimate business practice in direct selling.

All fifty states have codified laws banning pyramid schemes, and numerous court decisions have used the same definition of a scheme that is proposed at the federal level. This pro-consumer measure extends protection of consumers and direct selling independent consultants at the federal level as a natural next step.

MYTH: Herbalife's settlement agreement with FTC serves as guidance for the entire direct selling industry.

FACT: The settlement agreement of FTC's enquiry into Herbalife applies only to that company. However, it reinforces the importance of the principles and requirements of DSA's self-regulatory Code of Ethics for all DSA members. Similar to Amway's action with the FTC in 1979, the remedies set forth in the Herbalife matter apply only to that company, and not the entire industry. While this settlement gives us insight into the FTC's thinking regarding business practices associated with direct selling, it would be a mistake to apply facts and remedies specific to one company to an entire industry.

Nevertheless, we continue to review the settlement and examine various issues raised by the FTC's settlement with Herbalife.