

PYRAMID SELLING

What is Pyramid Selling?

Pyramid schemes are illegal and very risky 'get-rich-quick' schemes that can cost a lot of people a lot of money. In a typical pyramid scheme, a member pays to join. The only way for the member to ever recover any money is to convince other people to join up and to part with their money as well.

If the scheme involves the selling of a product, that does not preclude it from being pyramid selling. To determine whether something is a pyramid selling scheme, a court will look at the value of the product being sold vs. the cost to join as well as the emphasis given to recruitment payments.

Is it Illegal?

Yes.

It is an offence under the Australian Consumer Law to participate in a pyramid selling scheme or induce or attempt to induce others to participate.

Hefty penalties apply. Individuals face fines of up to \$220,000 and corporations face fines of up to \$1.1 million.

Why is Pyramid Selling Illegal?

Pyramid selling is illegal because it is an unfair form of trading. The cost of joining is generally high and the only way participants can get their money back is to recruit more participants. This means the market for new recruits will soon be saturated, with the participants at the top of the pyramid, who got in first, the only real winners.

The chance of finding new recruits is reduced as the number of participants increases. Once new recruits stop investing in the scheme, the pyramid collapses and those who have invested money will lose. By their very nature, all pyramid schemes will eventually fail.

Pyramid selling schemes are also bad business. The purpose of the scheme is to recruit new participants who will be doing the same thing you are: selling the same product and trying to recruit new members. These people are your competitors. No one in legitimate business wants competitors. In real business, you would pay to have exclusive rights to a product or an exclusive territory. In pyramid selling you recruit competitors from those nearest to you: family and friends who may have been your best sales targets otherwise.

In addition, you have to pay to be a customer, you'll face pressure to buy more and recruit more and you'll turn your family and friends into 'prospects'. Pyramid schemes typically suggest you sell to, and recruit, people you know well. Do you really want to view those closest to you as income?

The 'Business Opportunity' Pyramid Investment Scheme

This type of pyramid scheme has goods or services for sale. Investors in a pyramid trading scheme buy the right to receive payment for finding new members who will then do the same. The business is based on recruiting, not the sale of valuable products to uninvolved customers.

Warning signs include:

- the 'business opportunity' is the key reason you were approached, not the product. The goods or services for sale are not important; it is the business that is being promoted;
- you have to pay to play. It costs money to join the scheme and the payment benefits the recruiter;
- stock issues. There may be minimum monthly sales quotas (or volume discounts) that require a distributor to buy levels of stock that may be difficult to sell (especially as others join and the market shrinks). Unsold stock cannot be returned on normal commercial terms;
- training costs can disguise income from recruiting. Distributors may be expected to buy costly sales aids or attend expensive training seminars. There may be a commission for selling training down the line;
- hard sell. 'Get in on the ground floor!' Listen for the pyramid scheme trigger word 'pre-launch'. Early participants in a pyramid scheme have a financial benefit over those who come later, but often don't tell them when the 'ground floor' is full;
- documents leave out or gloss over legal issues. Sales material, capable of being checked for advice, leaves out how promoters in the real world sell the scheme. Documents may wrongly assert that the scheme is legal or has been approved by the authorities;
- products are over-priced. High prices may support a network of distributors;
- presentations are high on energy but low on substance. Questions may not be encouraged and thoughtful consideration of the issues is impossible; and
- promoters claim that the business has been registered with the authorities and so is legitimate or approved. Wrong! Just because a business name is registered, does not mean that it is legitimate.

An unlawful contract cannot be enforced through legal action in Australian courts. New members may have to make a choice: break the law or walk away from their losses.

Chain Letters

Chain letters that involve sending money or 'gifts' to a person on the top of a list while you add your name to the bottom are an example of illegal pyramid selling. Often chain letters promise large financial returns to people who become involved, but this is rarely the case. In fact, chain letters usually cost the participant money due to the additional costs of postage, photocopying and time.

Chain letters that involve sending money in the hope of making money are pyramid selling schemes and are illegal.

If you require any consumer or rental advice, please call our office on 1800 019 319 or email us at consumer@nt.gov.au.