

STEP BY STEP WITH MONEY – THE DIFFERENCE BETWEEN A NETWORK MARKETING BUSINESS AND A PYRAMID SCHEME

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Last week I asked the question ‘Are Gifting Circles Legal’. This week (24), I will share factors to consider when determining whether an opportunity is a network marketing business or a pyramid scheme. This is because we have been **Saving Money** and we want to invest our money legally.

My views here are based on the *Fair Trading Act* 1986, the Commerce Commission and my experience. Network marketing companies are not prohibited by the Act, pyramid schemes are.

Network marketing involves the sale of products or services. Members earn commissions from selling real products or services, whereas pyramid selling is earning money by introducing other people into the scheme. Network marketing income is limited by the number of sales, not by the number of new sales representatives. Network marketing companies allow customers to buy goods or services without joining the company. Network marketing involves commercially viable products (such as health products, jewellery, spices) which present genuine business and income-earning opportunities through repeat sales to clients.

Claims made by participants should be carefully considered. The Commerce Commission refers to an example, ‘*Since I joined this scheme I have made \$100,000 without really trying*’, *RS of Auckland*. We should consider whether the person making the claim is available for checking.

Some of the factors to consider between a network marketing business and a pyramid scheme:

1.	Is there a joining fee	<p>A network marketing business may or may not have a nominal registration fee. There is likely to be a cost to getting into the business (as with all businesses). In return for the costs we should receive products/services and training materials.</p> <p>Pyramid selling schemes have start up fees which are not for purchasing commercially viable products or services. This is because most of the income is generated by introducing others into the scheme.</p>
2	How are commissions earned	<p>In a network marketing business commissions are earned by products or services being purchased.</p> <p>Pyramid schemes are based on recruiting others into the scheme. These schemes focus on creating rewards for those members who recruit others</p>
3	Are the products commercially viable	<p>A network marketing business has products that consumers want to buy, for example, health products, jewellery, make up and tupperware.</p> <p>Are selling products or services the main feature of a pyramid scheme or is it the introduction of new members into the scheme.</p>
4	Are we provided with ongoing training and sales support	<p>Network marketing businesses have an interest in ensuring that participants are well trained and supported. We should consider the training provided and the true costs of the training (not just the cost to attend the event but consider who puts up the event, the time and effort to deliver the event).</p>
	Does the promotional material provide contact details and the location of the business	<p>A legitimate business will provide these details</p>

