

# Tips for Smart Consumers

## Work-at-Home Schemes and Multilevel Marketing

### A Message from Attorney General Bill Sorrell

Have you seen ads like this one?

*Earn hundreds of dollars a week, at home, in your spare time. We pay \$3 for each envelope stuffed and mailed from your home. Call 1-800-111-2222.*

Ads like the above can be found in the classified section of newspapers around the country, from local weeklies to the supermarket tabloids. They sound appealing, especially if you haven't been able to find work or can't work outside your home. Unfortunately, most are not legitimate offers. In recent years, the number of complaints about work-at-home plans received by the Attorney General's Consumer Assistance Program has risen dramatically.

### How Work-at-Home Scams Operate

The most common scam is envelope stuffing. Promoters advertise in the classified section that you can earn money stuffing envelopes at home. When you reply to the ad, you find out that a fee must be paid before information is received. Upon paying the fee, generally between \$25 and \$100, you don't receive a box of envelopes to be stuffed for pay. What you receive is most likely a set of instructions on how to place ads like the one you answered and get other, unsuspecting consumers to send *you* money. So the only way you make any money is by conning other consumers, which makes you a potential defendant in a consumer fraud case!

Another common scam involves assembly or craft work. Companies promise that if you produce goods for them, they will buy them from you for resale. They often require an investment of several hundred dollars on equipment, such as a sewing machine or sign-making machine, in addition to the cost of materials.

Unfortunately, once you have invested the money and substantial time actually making the products, the company might not pay you. The usual reason given is that the goods don't meet "quality standards." In fact, in many cases work is *never* up to standards. This leaves you with expensive equipment and supplies, and no outlet for your products.

### How to Avoid Work-At-Home Ripoffs

Here are some ways to avoid becoming a victim of a scam:

- Don't pay for information about a work-at-home offer.
- Be suspicious of companies that promise a steady salary, a regular market or "easy money."
- Use common sense. Is it likely that a company will pay several dollars per envelope to have someone stuff them?
- Ask for a list of names of satisfied customers, and call several of them.
- Before you send any money or agree to participate in any program, contact the Attorney General's Consumer Assistance Program or one of the other consumer organizations listed in the section entitled "Where to Go for Help," below, for information about the company. But remember that many illegitimate companies advertise heavily for a few months, collect their money, and take off before the public becomes aware that they've been scammed. So the fact that there are few or no complaints does not necessarily mean that the company is legitimate.

## Multilevel Marketing

Multilevel marketing, also known as "network" or "matrix" marketing, is a method of selling goods or services through distributors rather than retail stores or mail order. It appeals to many people for the same reason that work-at-home is attractive: you can work out of your home, as many or as few hours as you wish. What also attracts people to these programs is the promise that they can earn commissions from their own sales, from the sales of people they have recruited to be distributors, and even from the sales of distributors recruited by their distributors (referred to as their "downlines").

Legitimate multilevel marketing firms pay commissions based on the sales of goods or services. Firms that pay commissions for recruiting distributors violate Vermont law and the laws of most states. This practice, known as *pyramiding*, is illegal because--like the *chain letter* scam that it resembles--it is doomed to collapse as there is a limit on the number of people who are willing to participate. And like the chain letter, all but the very few at the top of the pyramid lose their investment.

Here are some warning signs to look for in distinguishing a legitimate multilevel marketing firm from an illegitimate one or an illegal pyramid scheme:

- Asking you to pay money or make an investment in return for the right to recruit distributors, or paying you commissions for recruiting other distributors. These are signs of an illegal pyramid.
- Requiring you to purchase expensive inventory. This is known as "front end loading" and is often used as a means to avoid the prohibition against requiring an investment. It may be an indicator of a disguised pyramid scheme.

- Claims that the products are "miracle products." Ask the promoters to substantiate such claims with proof the product will do what they say.
- Overstatement of earning potential. Be wary of claims of high earnings with little effort. The law requires that claims of earning potential reflect not what the top few earners make, but what the average worker earns.
- Representations that the Attorney General's Office, Better Business Bureau or Chamber of Commerce endorses or has approved the marketing plan. These organizations do not endorse or approve specific plans.
- Claims that the plan is not a pyramid because there is a product associated with it. Having a product associated with the plan does not alone make it legal. The key is whether the true purpose of the plan is to sell products or to sell distributorships.
- Statements that the plan is legal because it only has a certain number of "levels" on its "downlines." The number of levels is irrelevant.
- Statements about the market potential for the products or services. Products sold through multilevel marketing, even if they are good products, may be at a competitive disadvantage relative to products that are established and heavily advertised. Ask the promoter to substantiate claims about the product's potential market.

## Where to Go for Help

For information about the complaint history of companies you are considering dealing with, or to file a complaint against a company, you should contact the Attorney General's Consumer Assistance Program at the following address:

Consumer Assistance Program  
 Morrill Hall-UVM  
 Burlington, VT 05405  
 Phone: 80- 649-2424 (toll-free) or  
 802-656-1025 (Chittenden County)  
 Email: [ConsumerComplaint@atg.state.vt.us](mailto:ConsumerComplaint@atg.state.vt.us)

Other organizations that may be able to provide information or assistance with complaints are:

*National Fraud Information Center*  
*P.O. Box 65868*  
*Washington, D.C. 20035*  
*1-800-876-7060*

*Better Business Bureau*  
*20 Park Plaza, Suite 820*  
*Boston, MA 02116-4344*  
*617-426-9000*