

Differences between a direct sales company and a pyramid scheme

For South Africans wishing to generate more income, they may consider joining a direct sales company or a multi-level marketing company. However, they must be sure that this isn't in fact an illegal pyramid scheme.

Notes Kemble Morgan, WorldVentures general manager, South Africa "Direct sales companies are often lumped in with pyramid schemes and cause consumers to cringe when approached by a salesperson in this context." Direct sales companies continue to grow and provide income for many entrepreneurs and salespeople according to a report released by the World Federation of Direct Selling Association (WFDSA). The WFDSA reports that in 2015 sales volumes generated by member countries (excluding the Chinese market) totaled \$184bn with 103 million individual salespeople contributing to this number representing a 7.7% growth from 2014.



2015 also saw Russian Pyramid Scheme MMM establish themselves in South Africa promising a return of 30% per month leaving the South African market even more skeptical and leaving many direct sales and multi-level marketing companies facing a situation of defending their business operations which were being lumped in with pyramid schemes.

Here are some things to consider to help to determine whether an opportunity is an illegal pyramid scheme versus a legitimate direct sales or multi-level marketing company:

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A pyramid scheme, as the name suggests, is a hierarchical organisation where new recruits form the base of the pyramid and they provide returns for the members higher up in the pyramid. The objective is to recruit new people below you so that you begin to make money instead of selling something or investing money in something. The more people you recruit; the more money you make. In reality however, very few people closer to the base of the pyramid ever really make any money. Pyramid schemes may offer products and services but in reality they are relying mostly on their money from the recruitment of new people into the organisation. So pyramid schemes can be spotted by realising that recruiting new people to the company is more important than selling a product or service.

"Multi-level marketing is a sales strategy that some direct sales companies use in order to increase the sales of products or services. This is done through incentivizing their sales force by offering them a commission on product or service sales generated through new and existing members that are part of the direct selling or MLM company. The sale of the product or service is the key focus with a second objective of increasing the size of the sales force to sell more products. MLM and direct sales companies use direct sales in addition to retail channels for distribution of products," says Morgan.

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