



## Pyramid selling and chain letters

### The Set-Up

You receive an opportunity to join a scheme that will earn you lots of money for little effort.

### The Hook

You send money up the line to other people in the chain. People further down the line of the chain send money to you. Simple.

### The Sting

You are one brick in a pyramid. Only the bricks at the top make money.

## How pyramid selling scams work

You are offered the opportunity of a lifetime. Join this particular scheme for a small amount of money. As new members join they will start sending money to you.

This is a pyramid scam. Pyramid scams cost people a lot of money. A pyramid scam starts with a few people and spreads outwards to many people, who then send money back up the pyramid. The only people who make money are the people at the top of the pyramid.

### Example

This scheme depends on each participant recruiting 6 new members into the scheme. The figure below shows how many people will need to have joined the scheme at each level, in order for those above to be paid.

1	6
2	36
3	216
4	1,296
5	7,776
6	46,656
7	279,936
8	1,679,616
9	10,077,696
10	60,466,176
11	362,797,056
12	2,176,782,336
13	13,060,694,016

The total population of the world is approximately 6.2 billion so after only 13 levels there's not enough people on the planet to keep the scheme going.

Pyramid schemes turn their members into scammers. Once you have sent away your fees to the person who recruited you, the only way for you to get more money is to recruit others and convince them to part with their money too.

This is different from genuine multi-level marketing, where people make money from the sale of products and services, not from the cash involved in recruiting new members.

Some pyramid schemes do try to disguise themselves as multi-level marketing, by tying the sale of products into the offer. However, these products are usually of poor quality, overpriced and hard to sell. Other pyramid schemes posing as multi-level marketing may dupe their members into spending a great deal of money on training materials, like books and tapes.

You could be recruited into a pyramid scheme at a seminar, home meeting, over the phone or by letter or email.

The only way for a pyramid to work for everyone is if there is an endless supply of new members. There isn't - it's a mathematical impossibility.

Remember that your friends and family already in the pyramid may not realise they are being scammed. They will be hoping for a big payoff soon to come, and they naturally want you to benefit from it too. The payoff will never come.

## Variations on pyramid scheme scams

### Chain Letters

A letter arrives promising that for very little cost you will be showered with money, good luck or some other benefit.

All you have to do is send a small amount of money to everyone listed in the letter. Then, put your name on the list and send out the letter to as many people as you can. By doing this, the letter says you will receive a large amount of money or luck in a short space of time.

It is sometimes stated that if you don't send the letter, you'll not only miss out on the money, but you'll also have bad luck.

With a chain letter, you lose money in two ways:

- sending money to the scammers who sent you the letter and
- wasted time and money spent on postage and photocopying.

The letters will sometimes say 'this is not a scam' or 'this is not a pyramid scheme'. It is.

Don't scam your friends and relatives by getting them involved in something like this.

### Protect yourself from pyramid scheme scams

- Don't let anyone pressure you into making decisions about money.
- Decide whether this offer is a pyramid scam or a genuine multi-level marketing business. Do the products and services impress you? Will you be able to sell them? Is the business' success dependent on sales, rather than the costs of belonging to the business - like fees and training materials? If the answers are 'no', keep safe by steering clear.
- Don't respond to a chain letter. Just ignore it. You will not receive a lot of money. The mathematics of the pyramid are against you. Only the original scammers make money.
- Pyramid selling schemes are prohibited under the Fair Trading Act.

If you have been approached to join, what you suspect to be a pyramid selling scheme, we suggest you inform the Commerce Commission.

[The Fair Trading Act is enforced by the Commerce Commission.](#)

### Protect others from pyramid scheme scams

If you have received this kind of offer and you believe it is a scam rather than a genuine multi-level marketing business, please share your story with the Commerce Commission. Scamwatch does not receive reports of pyramid schemes as legislation exists to prohibit them and is enforced by the Commerce Commission.

[Contact the Commerce Commission.](#)