

DIFFERENCES BETWEEN DIRECT SELLING AND PONZI PYRAMID SCHEMES

Differences Between Direct Selling & Pyramid Schemes

Parameter	Direct Selling	Pyramid Scheme
Meaning/ Definition	Direct Selling” means marketing, distribution and sale of goods or providing of services as a part of network of Direct Selling, other than under a pyramid scheme, to the consumers, generally in their houses or at their workplace or through explanation and demonstration of such goods and services at a particular place.	A Pyramid Scheme is a business model that recruits members via a promise of payments or services for enrolling others into the scheme, rather than supplying investments or sale of products. As recruiting multiplies, recruiting becomes quickly impossible, and most members are unable to profit; as such, pyramid schemes are unsustainable and often illegal.
Driving Object	Sale of products and services to the ultimate consumer.	Little or no effort is made to market the product. All the focus is on enrolment on new people and collecting money from them.
Cost of Entry	No or only a reasonable entry fee.	Charge steep start-up costs for joining, including mandatory training, a starter kit and a non-refundable membership fee.
Plan/Scheme	Plans are primarily based on the value of sale of products.	Plans are primarily based on money paid by new recruits, and not on product sales
Mandatory Enrollment	Enrolment of recruits is not compulsory for doing business.	Enrolment of recruits is compulsory for doing business.

Underlying Product	Involves marketing of products under established brand names	Either no products are involved, or else the products are a cover and are not really sold to consumers
Quality of Products	High quality	Camouflage or sham products, inferior quality
Buy-back/guarantee of product(s)	Product come with buy-back option	No right to return, buy-back or cooling off scheme required.
Exit Policy	Sellers can exit at any time by returning the inventory.	No refund or exit policy exists.
Returns	Depends upon the value of products sold and not the number of people recruited.	Money from new participants is used to pay recruiting commissions to earlier participants.
Sales Incentive	Primarily derived from sale of goods and are paid directly through banking channels.	Based on recruiting new people rather than on sales. The payments are made usually through members.