



To: Members of the Senate Commerce, Labor & Economic Development Committee

Presented by Bryan Harrison, Amway Government Affairs

Re: Support for SB 2231 / Strengthening State Pyramid Scheme Law

On behalf of our several thousand Kansas independent business owners, I wish to express Amway's strong support for SB 2231, a bill that would strengthen Kansas's anti-pyramid scheme law. Kansas has an antiquated law on the books that needs to be updated and strengthened. SB 2231 will also draw a clear line of distinction between legitimate direct selling opportunities in Kansas and illegal pyramid schemes. Too often, pyramid schemes succeed because of the lack of clear laws defining them. Pyramid schemes continue to appear and re-invent themselves around the country despite the best efforts of the law enforcement community.

SB 2231 will more clearly define illegal pyramid promotional schemes and help protect Kansans from becoming victims. The new law will also protect legitimate direct selling opportunities, such as those offered by Amway, Mary Kay, Avon, Nu Skin, Pampered Chef, Shaklee, Southwestern Advantage, Thirty-One Gifts, and many other well-respected companies.

Thousands of Kansans are independent distributors of these income-earning opportunities, supplementing their family incomes by selling quality products to family, friends, and neighbors, while interesting others to do the same. Amway alone has several thousand independent distributors living and working in Kansas. It is important that the line of distinction separating out their legal small businesses from illegal pyramid schemes be clear and strong.

Background: Pyramid schemes are illegal get-rich-quick schemes in which the main source of money comes from paying large recruiting fees - not from the sales of real product to real consumers. In the typical pyramid scheme, a potential participant is required to pay money to join - participants then recruit others who also pay money to join. The scheme may use a sham product or service to mask its activity. In reality, compensation to participants in illegal pyramid schemes comes mainly from recruiting others and taking in money for the act of recruiting. Money taken in from more recent participants in the scheme is used to pay persons who joined earlier. Pyramid schemes always collapse, hurting citizens who have "invested" in them.

SB 2231 will:

- More clearly define pyramid promotional schemes;
- Strengthen the hand of law enforcement by clarifying and toughening existing law, helping keep pyramid schemes out of the state while making it easier to investigate and prosecute pyramid schemes;

- Clearly distinguish bona fide income-earning opportunities offered by legitimate direct selling companies from scams pushed by fly-by-night promoters of pyramid schemes.

This language - based upon South Dakota law - has been adopted as Suggested State Legislation by the Council of State Governments (CSG), the country's preeminent state legislative public policy organization. The bill has so far been enacted in 26 states, including Nebraska, Oklahoma, Texas, Arkansas and both Dakotas.

Amway respectfully urges adoption of SB 2231. Kansas will benefit from a stronger consumer protection law that accurately defines and bans pyramid schemes, while protecting legitimate Kansas direct sellers.

If you have any questions, please do not hesitate to contact Eric Stafford of the Kansas Chamber, or John Webb of the Direct Selling Association - Amway is a member of both organizations.

Thank you for your attention to this important issue.