

Guidance on Earnings Claims for the Direct Selling Industry

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Guidance on Earnings Claims for the Direct Selling Industry

Background

The Direct Selling Self-Regulatory Council (DSSRC) was created in January 2019 to address earnings claims (including lifestyle representations) and product claims communicated by direct selling companies and their salesforce members to ensure a high level of accuracy and adequate substantiation of those claims, thereby maintaining and enhancing the confidence of consumers in the direct selling business model. DSSRC is administered by BBB National Programs to provide an independent mechanism for the monitoring of such claims by all members of the direct selling industry. DSSRC is supported by the Direct Selling Association (DSA), which is engaged in educational programs dedicated to the dissemination of this guidance throughout the direct selling industry.

Purpose

One of the greatest challenges for direct selling companies is ensuring that the earnings claims communicated by their salesforce members comply with legal and self-regulatory standards. This guidance provided by DSSRC as to earnings claims is based on statutes, regulations, and guidance documents issued by regulatory agencies, judicial precedent, and decisions from self-regulatory organizations. Among other sources, DSSRC will refer to the Federal Trade Commission's (FTC) .com Disclosures Guide, the 2018 FTC Business Guidance Concerning Multi-Level Marketing, the FTC Guides Concerning the Use of Endorsements and Testimonials in Advertising, and Section A(8) of DSA's Code of Ethics. DSSRC intends to periodically update this guidance to reinforce fundamental principles regarding the dissemination of earnings claims. This document is also intended to provide more detail on how the DSSRC reviews and evaluates earnings claims. The following principles apply to both direct selling companies and their independent salesforce members and are provided for guidance to the direct selling industry and should not be viewed as advice on legal compliance obligations under state and federal law. Direct selling companies are also encouraged to consult with their legal counsel for compliance with federal and state laws and regulations that govern earnings claims.

While DSSRC has drawn upon the aforementioned sources in creating this guidance, this document is intended only to provide more detail on how DSSRC reviews and evaluates earnings claims and should not be construed as providing any guidance or advice as to how state or federal regulators may interpret earnings claims and/or applicable law.

General Principles

DSSRC cautions direct selling companies and their independent salesforce members against the use of any words or images communicating that a direct selling business opportunity will result in earnings beyond what can be generally expected by the typical salesforce member in the depicted circumstances (e.g., modest or supplemental income).

- 1. Core Principle: It is misleading for a direct selling company and/or its salesforce members to make any earnings claims unless the direct selling company and/or its salesforce members:
 - (A) have a reasonable basis for the claim at the time the claim is made; and
 - (B) have documentation that substantiates the claim at the time the claim is made.
- 2. For purposes of a DSSRC inquiry, an earnings claim is any claim, express or implied, communicated by either the direct selling company itself or by its independent salesforce members that conveys:
 - (A) a level or range of actual or potential earnings that may be earned by salesforce members; See Example No. 1 a level or range of gross or net income or profits, including but not limited to representations that suggest that the ability to make lifestyle purchases - such as homes, vehicles, vacations, etc. - are related to income earned from direct selling; See Example No. 1.
 - (B) a level or range of gross or net income or profits, including but not limited to representations that suggest that the ability to make lifestyle purchases – such as homes, vehicles, vacations, etc. – are related to income earned from direct selling;
 - (C) any statement, representation, or hypothetical scenario from which a current or prospective salesforce member could reasonably infer that he/she will earn a certain level or range of income; See Examples **No. 2.1** and **2.2**.
 - (D) any chart, table, or mathematical calculation demonstrating possible income, actual or potential sales, or gross or net profits based upon a combination of variables;
 - (E) marketing materials or advertising describing or promising potential income amounts or demonstrating extraordinary or lavish lifestyles of salesforce members enabled by their participation in direct selling; See Example **No. 3**.
 - (F) that salesforce members may earn or have earned company-sponsored incentives, including those lifestyle purchases described in section 2(B), and vacations or other rewards.
 - (G) endorsements or testimonials by independent salesforce members that consumers are likely to believe reflect their opinions, beliefs, findings, or experiences that are made to promote the business opportunity.
- 3. Earnings Claims should account for mandatory costs of the direct selling product or service that participants purchase for resale, see Example **No. 4**, as well as other mandatory or de facto mandatory costs of participation in a direct selling business opportunity, such as registration, travel and accommodation costs incurred when attending required company events. Other non-incidental expenses should be considered depending upon the significance of those costs and should be evaluated on a case-bycase basis.

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- 4. Advertising materials of a direct selling company include not only materials disseminated by the company itself but also claims made by the direct selling company's salesforce members including claims made on social media. A direct selling company is responsible for the earnings claims made by its salesforce members. Direct selling companies should engage in effective training, monitoring, and enforcement procedures to provide reasonable assurance that claims made by salesforce members are truthful and nonmisleading.
- 5. Lavish lifestyle claims either expressly state or imply through visual images or otherwise that participation in a direct selling business is likely to result in the ability of the participants to live a lavish or extravagant lifestyle. DSSRC will evaluate whether a claim is a lavish lifestyle claim based upon the context in which the claim appears and the potential net impression of such claim to the audience. The following are examples of prohibited lifestyle depictions when made to a general audience of prospective or current salesforce members: Descriptions or images of opulent mansions, private helicopters, private jets, yachts, exotic automobiles, or any substantially similar descriptions or images. See Example No. 5.
- 6. While DSSRC will evaluate any claim based upon the context in which the claim appears and the potential net impression of such claim to the audience (for example, see Section 9A), some words and phrases are prohibited when made to a general audience of prospective or current salesforce members. Such words and phrases include statements such as "quit your job," "be set for life," "make more money than you ever have imagined or thought possible," "unlimited income," "full-time income," "replacement income," "career-level income," or any substantially similar statements or representations. Other terms, such as "passive income" and "residual income," are prohibited when they convey that income can be continuously earned by salesforce members with little or no ongoing effort.
 - (A) Some words or phrases carry a particularly high risk of being misleading to consumers when communicated in a general context. Such words and phrases include but are not limited to "financial freedom," and "time freedom."
 - (B) Other phrases carry risk but may be appropriate depending on the context in which they are used. For example, "time flexibility" would be problematic if used to convey the capacity to earn career-level income to new participants, but not when used to suggest the ability to earn supplemental income on a flexible schedule.
- 7. All earnings claims should be supported by substantiation demonstrating that the earnings communicated in the claim are accurate as to the individual or individuals depicted in the claim. Atypical earnings claims should also be accompanied by a clear and conspicuous disclosure regarding the income that can be generally expected by the typical salesforce member in the depicted scenario. Such claims should also be otherwise truthful and non-misleading. To be an effective qualification, any disclosure for atypical salesforce earnings claims should comply with sections 12 and 13 herein.
- 8. An award or announcement of compensation describing the earnings of any current or former salesforce member may be considered an earnings claim. Such award or announcement of compensation may be appropriate if:

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- (A) the direct selling company and/or its salesforce members have a reasonable basis for its claim at the time the claim is made; and
- (B) the direct selling company and/or its salesforce members clearly and conspicuously disclose key context related to the award or earnings to ensure that the net impression is truthful and not misleading. The information required to be disclosed should be evaluated on a case-by-case basis and should convey generally expected results. See Examples No. 6.1 and 6.2.

Net Impression

- 9. For purposes of a DSSRC inquiry, when evaluating express and implied messages communicated by an earnings claim, DSSRC will review the totality of the claim including its words, images, and context (e.g., hashtags, emojis, etc.), which may include other social media posts from the company or salesforce member disseminating the claims, to determine the "net impression" or takeaway message conveyed to the audience. The relevant audience to consider is that of a reasonable consumer when the claim is made to a general audience, such as by posting the claim on public social media or the internet. See Example No. 7.
 - (A) The relevant audience may be more limited, for example, when the claim is made to a specifically targeted group or at a particular event. For example, if a claim is made at an event limited to the top 1% of salesforce members, the relevant inquiry is the net impression conveyed to a reasonable top 1% salesforce member.
 - (B) If an earnings claim is communicated to a limited, targeted audience, a direct selling company and/or its salesforce members should consider the net impression of that specific audience and assure that the earnings representation will not be repurposed to a general audience. See Example No. 8
- Depending on the level of success, some income claims and lifestyle claims may be so extraordinary that they cannot be effectively qualified by a disclosure of generally expected results. See Example No. 9.

Disclosures

- 11. With respect to any earnings claim, if the direct selling company does not have substantiation that the experience of the individual making the claim or who is the subject of the claim is representative of what the audience will generally expect to achieve, the advertisement (e.g., social media post) should **clearly and conspicuously** disclose the generally expected results in the depicted circumstance. The direct selling company must possess adequate substantiation for the representation of the generally expected results. See Example **No. 10**.
- 12. Any disclosure necessary to prevent deception must be **clear and conspicuous**. In evaluating whether a disclosure is clear and conspicuous, consideration will be given to the following factors:

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- (A) Presentation. The disclosure should be worded in a way so that consumers will easily understand it. Legal jargon or technical terminology reduces the likelihood that consumers will understand the intended message.
- (B) Prominence. The disclosure must be big enough for consumers to read easily. Consideration will be given to color and font contrast as well. For example, white text on a light background may make it difficult for a person to read a disclosure. See Examples No. 11.1 and No. 11.2.
- (C) Placement. The disclosure should be where consumers are likely to look. Consumers are unlikely to read disclosures buried in a dense block of text. See Examples **No. 12.1** and **No. 12.2**.
- (D) Proximity. The disclosure should be close to the claim it modifies. A disclosure that is not near the triggering claim may be missed by consumers. For example, on social media posts that contain an image where the claim is present on the image, disclosure language should ideally appear on the image itself. See Examples No. 13.1 and No. 13.2.
- Disclosures that are necessary to prevent deception pertaining to earnings claims should be clear, conspicuous, and in close proximity to the triggering representation. See Section 12 above.
 - (A) When feasible, direct selling companies and salesforce members should incorporate relevant limitations and qualifying information into the underlying claim, rather than having a separate disclosure qualifying the claim;
 - (B) Hyperlink disclosures may be acceptable in some circumstances, but disclosures necessary to prevent deception should not be hidden behind a hyperlink. Accordingly, an advertisement, including a social media post, that includes an earnings claim disclosure should clearly and conspicuously disclose any material information related to the claim to ensure that the net impression is truthful and not misleading. An advertisement or social media post may use a hyperlink to complement generally expected results stated in an atypical earnings disclosure and such hyperlink may be used in certain situations to refer the consumer to additional information regarding generally expected results in the depicted circumstances. DSSRC will evaluate the appropriateness of hyperlinked disclosures on a case-bycase basis; See Examples No. 14.1 and No. 14.2.
 - (C) When a space-constrained advertisement, including a social media post, requires a disclosure to prevent deception, and the platform's space constraints prevent the disclosure from being made, the direct selling company and salesforce members should not make the claim in that advertisement or social media post;
 - (D) For claims made through other methods, such as in-person or at live events, disclosures necessary to prevent deception should be clear and conspicuous and made simultaneously with the triggering claim. Such disclosures should be evaluated on a case-by-case basis.
- 14. When using a hyperlink disclosure, a direct selling company or salesforce member should:
 - (A) make the hyperlink obvious;
 - (B) label the hyperlink appropriately to convey the importance, nature, and relevance of the information to which it leads;

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- (C) use hyperlink styles consistently, so consumers and potential salesforce members know when a link is available;
- (D) place the hyperlink as close as possible to the information it qualifies and make it noticeable and unavoidable; and
- (E) have the hyperlink lead directly to the disclosure landing page.

Example 1 Earnings Claims X



Don't wait, start making some extra cash right now! Contact me at BPrice@WeSell.com \$

I MADE \$50, \$100, EVEN AS MUCH AS \$200 A MONTH OVER THE LAST YEAR

Join my WeSell! Team today!

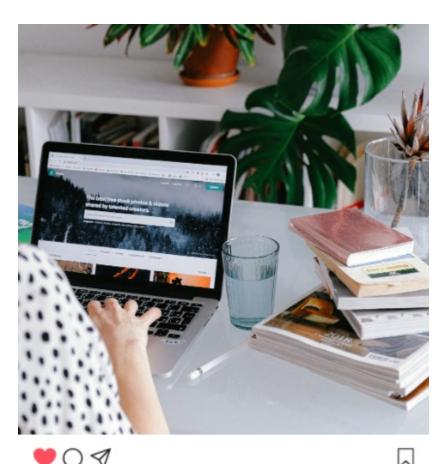


21 Comments 7 Shares

Example 1: The above post from a WeSell salesforce member is intended only to illustrate that a claim stating a range of potential earnings from a direct selling business opportunity will be considered an earnings claim.

This is an improper post in the context presented. DSSRC would expect the direct selling company to possess evidence showing that the *maximum amount* that is referenced in the post (i.e., \$200 per month or \$2,400 per year) is income that could be generally expected by a typical WeSell salesforce member. If the maximum amount of income referenced in the post is an amount that would not be generally expected by a typical WeSell salesforce member, the direct selling company should include a clear and conspicuous disclosure of income that can be generally expected by the typical WeSell salesforce member in the depicted circumstance.

Example 2.1 Earnings Claims X



Liked by Doris.Shutt and 59 others crystal.ball Join my #WeSell team today and collect \$200 a month. That's \$4,800 in cash payouts in the next 2 years if you join me!

Example 2.1: This social media post is intended to illustrate that offering a scenario from which a current or prospective salesforce member could reasonably infer that he/she will earn a certain level or range of income is an earnings claim.

One reasonable interpretation of this post is that the typical salesforce member can expect to earn \$200 per month. **This is an improper post in the context presented** given that the typical WeSell salesforce member earns \$239 per year.

Since the maximum amount of income referenced in the post is an amount that would not be generally expected by a typical WeSell salesforce member, the direct selling company should include a clear and conspicuous disclosure of income that can be generally expected for typical salesforce members in the depicted circumstance.

Example 2.2 Earnings Claims X



WeSell - Doris Shutt is with May B. Dunn and Mel N. Colley Today at 1:41 PM · 🚱

Hey ladies, have you heard of WeSell's onboarding compensation plan?

If you recruit 10 people who each sell \$250 of product each month, you'll earn \$250 a month. Imagine what you can do with all that extra income a month!

Facebook live seminars ever Thursday, just DM me for the link!



Example 2.2: This post presents a hypothetical earnings scenario that will be interpreted by DSSRC as an earnings claim implying that potential recruits can earn \$250 per month or \$3,000 per year. This is an improper post in the context presented.

DSSRC would expect that the direct selling company would either possess substantiation that the depicted earnings are generally expected by a salesforce member or provide a clear and conspicuous disclosure stating that in 2021 the annual income earned by a typical WeSell salesforce member was \$239.

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If the maximum amount of income referenced in the post is an amount that would not be generally expected by a typical company salesforce member, the direct selling company should include a clear and conspicuous disclosure of income that can be generally expected for typical salesforce members in the depicted circumstance. Regardless of the appropriateness of a generally expected earnings disclosure, because earnings of \$3,000 per year significantly deviates from what would be generally expected by the typical WeSell salesforce member, the direct selling company should expect a post with such stated earnings to be scrutinized by regulatory agencies.

In addition, posts focusing on recruiting compensation as opposed to selling product are strongly discouraged.

Example 3 Earnings Claims X



Example 3: This social media post illustrates a lavish-lifestyle depiction. **In the context presented, this is an example of a prohibited social media post** that should be avoided by direct selling companies and their salesforce members.

Example 4 Earnings Claims, Costs Associated X



WeSell - Rachel Ngyuen at My House Yesterday at 12:40 PM · 🚱

I made \$800 yesterday, all by throwing a party in my living room with my amazing friends! 😍 *

*In 2021, the annual income earned by a typical WeSell Distributor was \$239. Income Disclosure Statement



CO 32

5 Comments

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Example 4: This social media post is intended to demonstrate the necessity of including known material costs in a representation of direct selling income.

If the WeSell salesforce member making the testimonial depicted above earned \$800 at a WeSell party but incurred \$200 in purchasing inventory to sell at the party and \$75 in food and beverages, the claim should instead state that the representative, in fact, earned \$525. In this example, because the cost of inventory and entertainment is a significant and known cost to the WeSell salesforce member, such cost should be accounted for in this earnings testimonial.

Example 5 Earnings Claims – Lavish Lifestyle X

WeSell - Chris P. Bacon is with Joshua Tree at The Top Yesterday at 12:35 PM · ③

Started from the bottom, now we're here This is all thanks to #WeSell !! Come join my team, we can teach you how

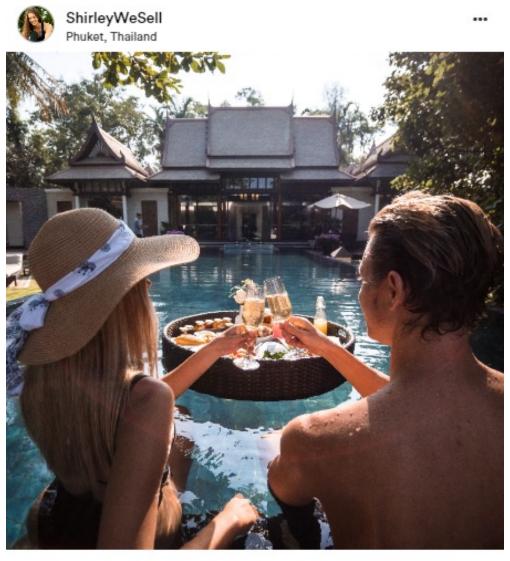
CBacon@WeSell.com



Example 5: **This is an example of an impermissible social media post.** In the context presented, the image of a large house and an exotic automobile accompanied with the statement "This is all thanks to WeSell!!" communicates a lavish lifestyle claim to a general audience.

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Example 6.1 Earnings Claims: Incentive Claims ×



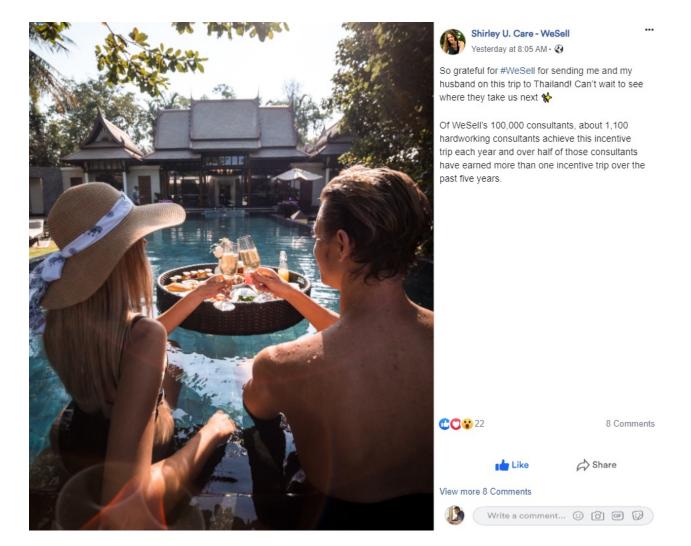




Liked by Joe.King and 102 others ShirleyWeSell So proud to be part of the WeSell team and have the chance to travel. Of WeSell's 100,000 consultants ... more

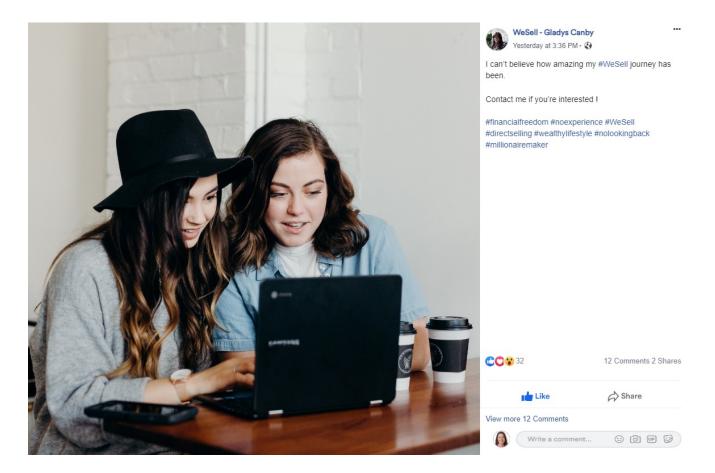
Example 6.1: **This example is used to illustrate an ineffective disclosure.** DSSRC notes that some mediums such as social media platforms have space constraints. For example, a disclosure that is not visible on a mobile device without clicking "more" is unlikely to be seen by the intended audience and is therefore unlikely to be effective.

Example 6.2 Earnings Claims: Incentive Claims 🗸



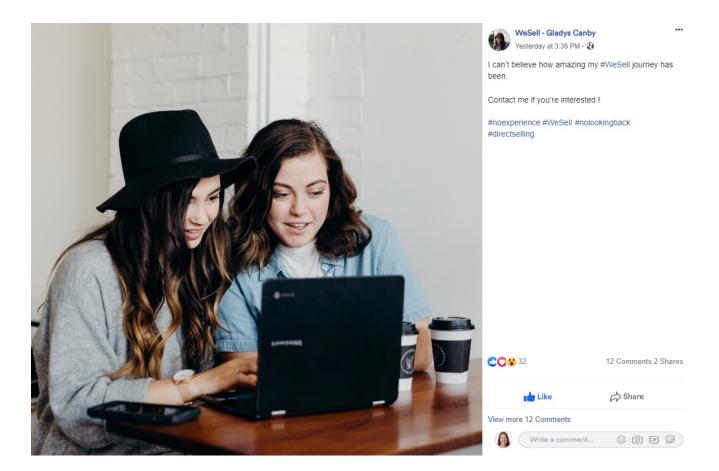
Example 6.2: **This example is used to illustrate an appropriate qualification of an atypical incentive reward claim**. The disclosure highlights the number of salesforce members who typically earn company incentive trips.

Example 7.1 Hashtags X



Example 7.1: This an example of how hashtags (i.e., #financialfreedom; #noexperience; #millionairemaker; #wealthylifestyle) can be considered substantive claims and can turn a seemingly innocuous social media post into a **social media post that is incapable of being substantiated in the context presented and is therefore improper**. Here, though the photo and hashtag claim "#noexperience" are unobjectionable on their own, the net impression of the post is problematic due to the inclusion of hashtags claims #financialfreedom, #millionairemaker, and #wealthylifestyle.

Example 7.2 Hashtags 🗸



Example 7.2: In this context, the photograph along with the "#noexperience" hashtag are properly presented.

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Example 8 Rep	urposing of Post 🗙			
😑 🕒 YouTube	Search	Q 🌷	+ ¹	φ 🕔
Video unavailable				
This video is private				
	GO TO HO	DME		

Example 8: If an earnings claim is communicated to a limited, targeted (i.e., private) audience, a direct selling company and/or its salesforce members should assure that the earnings representation will not be repurposed to a general audience. For example, at a live event limited to top salesforce members, the direct selling company should instruct attendees not to disseminate the earnings representations made at such event to a general audience including by word-of-mouth or other means.

Example 9 Earnings Claims X



*In 2021, the annual income earned by a typical WeSell distributor was \$239. Income Disclosure Statement

Example 9: Given that the typical WeSell distributor earns \$239 per year and very few WeSell distributors earn the amount depicted above, **this claim would be considered extraordinary and incapable of being qualified with an appropriate disclosure when being communicated to a general audience.** DSSRC also notes that the claim that "The earning potential is truly limitless" is a prohibited earnings claim and also contributes to the net impression of this claim. There is no specific amount of income that will be considered "extraordinary"; all earnings claims will be evaluated on a case-by-case basis by DSSRC.

This example should not be construed as conveying that any amount less than \$100,000 would be appropriate.

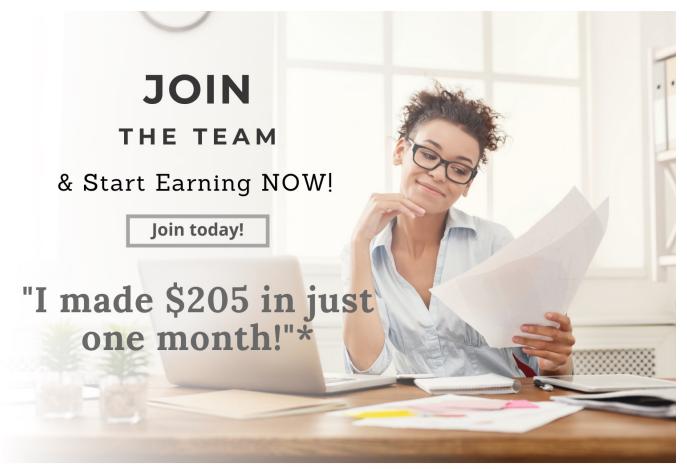
Example 10 Atypical Earnings Claims Disclosure 🗸



*In 2021, the annual income earned by a typical WeSell distributor was \$239. Income Disclosure Statement

Example 10: This example demonstrates an appropriate disclosure of generally expected net earnings in a social media post that references atypical salesforce earnings.

Example 11.1 Earnings Claims, Prominence X



*Statement: In 2021, the annual income earned by a typical WeSell Distributor was \$239. Income Disclosure Statement

Example 11.1: Format, color, or other graphics treatment can help to ensure that a link is noticeable. In this example, the print size is too small and the color is too light and is presented against a light background. A disclosure presented in a color that contrasts with the background emphasizes the text of the disclosure and makes it more noticeable. Conversely, information presented in a color that blends in with the background of the post is likely to be missed. Disclosures that are at least as large as the advertising copy are more likely to be effective.

Example 11.2 Earnings Claims, Prominence 🗸



*In 2021, the annual income earned by a typical WeSell distributor was \$239. Income Disclosure Statement

Example 11.2: This example demonstrates a prominent disclosure that is conspicuously presented. The use of an asterisk puts consumers on notice that the post includes material, qualifying information.

Example 12.1 Earnings Claims, Placement X

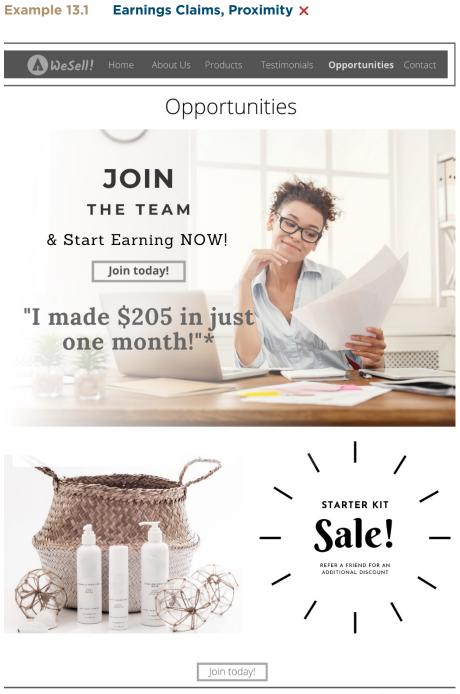


Lorem ipsum dolor sit amet, consectetur adipiscing elit, sed do eiusmod tempor incididunt ut labore et dolore magna aliqua. Nunc aliquet bibendum enim facilisis gravida neque convallis a. Ullamcorper malesuada proin libero nunc consequat interdum varius sit. Amet nulla facilisi morbi tempus iaculis urna id volutpat lacus. *In 2021, the annual income earned by a typical WeSell Distributor was \$239 <u>Income</u> <u>Disclosure Statement</u>. Egestas diam in arcu cursus euismod quis viverra. Dictum non consectetur a erat nam at lectus.

Example 12: To ensure that the disclosures are effective, consumers must be able to understand them. Advertisers should use clear language and syntax and avoid legalese or technical jargon. Disclosures of material information should not be buried within the text of a post and should be as simple and straightforward as possible. Incorporating extraneous material into the disclosure also may diminish the message that must be conveyed to consumers. Example 12.2 Earnings Claims, Placement 🗸

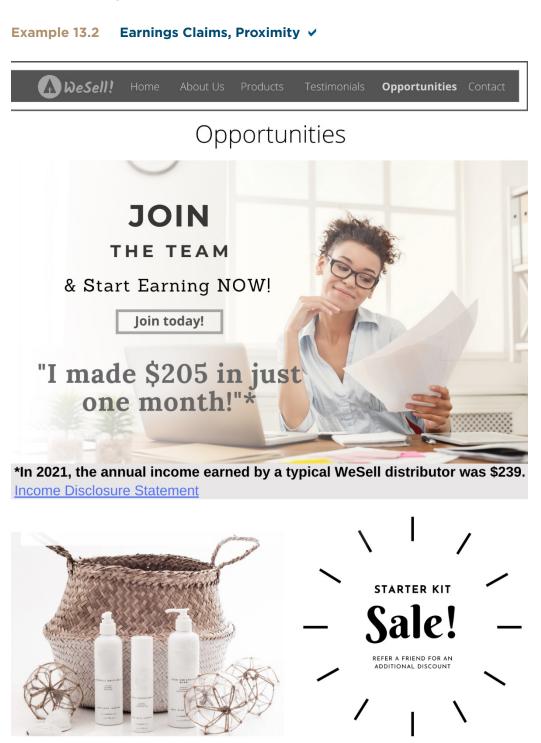
<complex-block>

*In 2021, the annual income earned by a typical WeSell distributor was \$239. Income Disclosure Statement



*In 2021, the annual income earned by a typical WeSell Distributor was \$239 Income Disclosure Statement

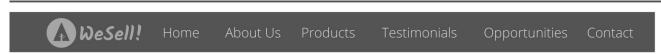
Example 13.1: A disclosure is more effective if it is placed near the claim it qualifies. Proximity increases the likelihood that consumers will see the disclosure and relate it to the relevant claim. A disclosure is more likely to be effective if consumers view the claim and disclosure together on the same screen. If scrolling down the screen is necessary to view a disclosure, advertisers should ask whether consumers are likely to scroll. If consumers do not scroll, they may miss the important qualifying information and be misled.



Join today!

bbbprograms.org

Example 14.1 Earnings Claims, Hyperlinks X



Testimonials



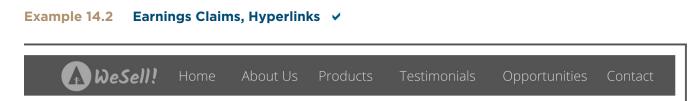
Through WeSell, I can work wherever I want and meet new people everyday. Last year I made \$1,250!*

> Helen Hywater WeSell Consultant

*Income Disclosure Statement

Example 14.1: Given that the typical WeSell salesforce member earns \$239 a year, a testimonial that a salesforce member earned \$1,250 would require a disclosure of generally expected results. Such a disclosure should not be made solely via hyperlink.

The example illustrates an inappropriate use of a hyperlink disclosure. Hyperlink disclosures may be acceptable in some circumstances, but disclosures necessary to prevent deception should not be hidden behind a hyperlink.



Testimonials



Through WeSell, I can work wherever I want and meet new people everyday. Last year I made \$1,250!*

> Helen Hywater WeSell Consultant

*In 2021, the annual income earned by a typical WeSell distributor was \$239. Income Disclosure Statement

Example 14.2: Here, the hyperlink to the Income Disclosure Statement is intended to complement the disclosure of generally expected results and provide additional context to the testimonial.