

Network Marketing Structure Part 1

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**“Dissecting Network Marketing’s Compensation
System To Maximize Profits & Even
Start Your Own Company!”**

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Network Marketing Structure – Part 1

**Dissecting Network Marketing's Compensation System
to Maximize profits & Even Start Your Own Company!**

Those Who Fail to Plan, Plan to Fail

Welcome to **Network Marketing Structure – Part 1!** This book is the first part of an exciting 2 part series.

Why have I written this book? If you are familiar with the network marketing industry, you will have no surprise why the majority of new distributors or networkers **spend a lot of time in network marketing training** because they simply **don't understand how the compensation or marketing plan in their company works!**

Every year, **network marketing companies and teams spend thousands on marketing plan training** because many people simply find marketing plans today too confusing or people just don't take network marketing serious enough to be well equipped.

Isn't this alarming? Consider this:

- Would you be in a profession if you don't know your career path?
- Would you work in a job if you don't know how much you are getting paid?
- Would you give away money for free?

We all know the answers to these questions, BUT, in network marketing, proper understanding of the marketing plan (not only yours but others in the industry) will not only **save you lots of time**, but will also **determine the rest of your network marketing career!** This is even more so for people who plan to start their own network marketing company offline or online.

When I first started out with my network marketing career, I was so clueless about my company's plan that it was almost *laughable*. When my prospects ask me how much do I get paid at this level, I would call my upline in front of the prospect and ask him the questions. Towards the end of the prospecting session, I think I must have called my upline at least 4 times! (Thankfully the prospect signed up 😊)

I have also seen people lose thousands of dollars because of wrong placement of the downline causing massive residual income to be wasted due to poor planning and lack of understanding. **You don't need to be a mathematical genius to understand plans, just simple calculation and mechanics to master.**

After you are done with this book, you will learn how to:

-
- Differentiate between typical plans and how to make money there
 - Choose a good network marketing company based on how good is their plan
 - Develop confidence in front of your prospects
 - Close the deal with other networkers by simply stressing the benefits of your plan over theirs and bring them into YOUR organization
 - Develop a strategy to building your network for the long term
 - Avoid costly mistakes by placing your new downlines under the right people to maximize your profits
 - Start from scratch your own network marketing company the right way (whether it be online or offline) saving you heartache and disaster!

Now, let's get ready to dissect the plan!

Terminology and Jargon You Can't Live Without

If you expect to start a successful network marketing company or build a very large network, **you had better get familiarized with the terminology or jargon!**

Builder

A builder is a distributor who is actively looking for downlines. A builder is not the same as a customer who only consumes the products or recommends them to friends.

Upline

You are in their organization. An upline usually earns commission from your group volume. You may have several uplines possibly up to 10-20 levels in depth. Normally, an upline is responsible for your success. An upline may not necessarily be an upline leader/mentor.

Upline Leader/Mentor

This is an upline that you actively seek counseling from on how to build your business. They are here to guide you and are here to mentor you and make sure you succeed in the business.

Sponsor

You are directly under him or her. Normally they are the one who introduced you to the company.

Downline

They are in your organization. Depending on the nature of the plan, your commission from their group usually is smaller the deeper they are in the organization. Sometimes, your downline's downline could be many levels deep in your organization so you might not even know him personally.

Sideline/Crossline

These people are not in your organization and neither are you in theirs. Basically there are no monetary relationship between your group and the sideline's group. However, depending on the culture promoted in the company, they are either perceived as the worst competitors, or valuable allies. Take note also, that somewhere along the line, they are also in your upline's group, so helping your sideline means helping your upline and his group.

Front Line

These are downlines that are personally sponsored by you or are directly under you. You must be directly responsible for their success because you are the one who introduced them to this business. Furthermore, the development of your frontline will determine the success and failure of an entire downline group.

Leg

A leg is a downline group in your network starting from the person you personally sponsored. He and all the downlines under him are considered one of your legs. A distributor usually develops many legs simultaneously.

Width

The number of people you can personally sponsor. Matrixes and Binaries usually limit the maximum width. Normally a strong downline is one that builds and develops a very large width.

Depth

Depth refers to the level of your downline's downline. A person who has build depth usually has a secure organization.

Override

An override means you are paid a certain percentage over your downline's group. Normally an override is calculated on your frontline only.

Profit Sharing Pool

Profit sharing is a bonus that is paid out to achievers who have reached certain conditions in the marketing plan. A pool is a collection of sales volume from distributors all over the company regardless of whether the sales volume comes from your sideline.

Maintenance

A mandatory (sometimes optional depending on certain criteria) sales volume a distributor must achieve. Often maintenance is done to override your downline, become eligible for profit sharing, or maintain a certain rank or even the distributorship. Normally this is enforced because the company needs to make money as well.

Total Payout

This means that a percentage of a product sold by the company that is set aside for distributors and retail sales only. The company only keeps the remainder.

Clearing Out Common Misconceptions

Let's clear up some common misconceptions regarding compensation plans both for the distributor and the company.

The compensation plan is not important; all I need to do is recruit people

A good plan will make or break a company. Survivability among distributors is one of the main causes of attrition. Would you be as excited as when you first started if you are not making money?

Factors like payout, maintenance and even the joining fee are crucial. If a company has quite a high maintenance and their distributors are not making money, they will drop out even faster.

I will only be a serious builder once I find the best compensation plan

There are people who do not work hard enough in their business, that they blame the plan for their failure.

They blame the plan, the management, or even call them a scam. If you decide to leave a company for a better plan, make sure you leave **strictly based on business reasons and not to justify your failure!**

I must explain the entire plan to the prospect so that he understands

If you explain the plan to a new person, chances are he will get very confused and he might not sign up.

Keep the plan simple and explain in terms of benefits instead of features.

If you are starting your own network marketing company, outlining the benefits and writing in terms of potential earnings is more advisable because most people want don't want to think too much.

If I want to start my own network marketing company, all I need is a good plan only.

Ultimately, the success of a network marketing company depends on many factors. The most important factor is who is managing the company. Even a company that is

making the most money will still fall apart if it is not backed by a solid management team.

Other factors also include having a viable product. A good product ensures repeat sales and cash flow for both the company and the distributors. The plan should be designed to complement and synergize with all the other elements. At any time, each element should not be designed at the expense of the other.

If the company has a high payout to the distributors, everyone will join the company
If everyone in the company is enjoying extremely high commissions, you must observe the product more carefully. If a product's mark-up is too high, it may be good for the distributors in the short term, but in the long run, high retail mark-up will hurt the consumers and devalue the product.

A product must rely on good repeat sales and reasonable mark-up at the retail level or else the company will not survive long. Most companies simply grab any product and give it a crazy mark-up so that it attracts many builders without any thought of its long term survivability.

Recognizing Basic Plan Mechanics

Now that we are very clear how important it is to learn about marketing plans, let us seek to understand more about its basic mechanics. This will be covered over a course of a few books.

Over the next few pages, I will outline the basic plan mechanics and outline its benefits based on the following topics:

1. What downline building strategies are the best?
2. How well does it synergizes with the product?
3. If I start a company with this feature, what are the strengths and weaknesses?

Point Value to Cash Calculation

Point value, or PV in most network marketing usually relates to a monetary value that translates into how much money you will get after purchasing a product from the company. *An illustration would look like this:*

SCENARIO 1

Let's say, a product costs \$100 and each dollar spent on the product gives you 1 PV: I get paid on 100 PV for purchasing \$100 worth of products and if I am eligible for 10% override, **I earn \$10**

Hence the dollar to PV ratio is \$1:1 PV – a dollar to dollar equal comparison

SCENARIO 2

Sometimes, the same price of a product will only give you 0.5 PV for each \$1 spent. I get paid on 50PV for purchasing \$100 in this scenario. If I am eligible for 10% override, **I earn only \$5**

Hence the dollar to PV ratio now is \$2:1 PV – you don't get as much as 1:1 because you have to spend more to earn more points

SCENARIO 3

Certain companies might give away promotions for products and offer **\$1:1.1 PV** so if you **buy \$100, you get paid on \$110** value. At 10%, **I earn \$11 – more commission from the company on the product for less spent buying it,**

Downline Building Strategies

If I need to generate large volume for my group this month, I would ask my downlines to focus more on selling or moving products that give a higher point value. That way, **everyone spends less but earns more.**

Product Synergy

Products on promotions usually give a higher PV ratio. Other products that are outsourced (acquired from outside companies) usually give either a smaller PV or the same PV but a smaller business volume because they have to pay to the outsourced company as well. **These products pay the distributor less but give more variety on the business catalogue.**

Starting a New Company

Giving a high dollar to PV ratio usually encourages the distributors since they get paid more for the same effort. If I were to focus on moving high ticket items (like water filters, air treatment systems or expensive cookware) I would offer a higher PV incentive to distributors to move these items and go for the big bucks.

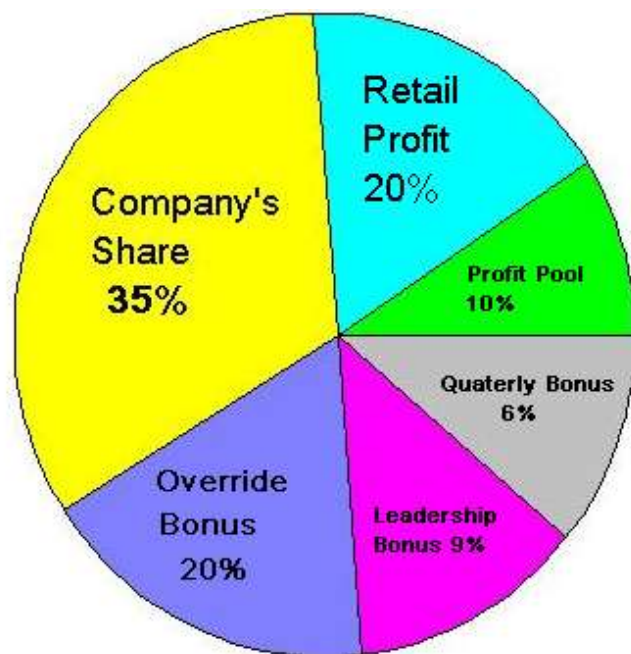
Payout Transparency

A company's marketing plan must be as transparent as possible and written in a simple way that can be understood by veteran and newbies alike. Payout transparency refers to the portion of money that is paid back to the distributors listed in detail.

Here is an example:

The company keeps 35% of the product. That means **65% is paid out to the distributors**. In this case, the company actually declares the payout in the official marketing plan.

If the percentages are not written out clearly, then you will not know where the money goes to.



Downline Building Strategies

A transparent payout is useful to motivate your downline especially new prospects who are evaluating the company. By teaching your downline to understand what all these percentages mean, you can effectively close more sales.

Product Synergy

This is very important for the product because too high a mark-up of the product means it will be very hard for retail customers (people who are not members of the company) to afford the product. In Multi-level Marketing, you have to pay to many level of distributors so if a product can sell without being people joining the company, then there is strong demand for the product.

Starting a New Company

Calculate the payout before hand and most of all; decide the total mark-up. Be careful especially in **Binary Plans** (which will be covered in the next book) because you don't want to **overpay** your distributors or else your company will go into bankruptcy.

Buy Back Policy

A buy back policy is a clause in the company's terms and conditions where it protects its distributors in case they quit their business and want their money back. Normally this applies more to offline companies.

A very strong company usually has money back guarantees for their products even after the product has been used halfway or if the product is totally used up. This kind of satisfaction guarantee normally compels the company to absorb the risk because there will always be lots of quitters in network marketing or people who want to rip the company off trying the product for free.

In most countries, they offer either a 10 day cooling off period, or a 6 months to one year period where they will refund 90% to 100% of the products (whether used or unused depending on the company) due to the laws of the country or by the Federal Trade Commission.

Downline Building Strategies

A buy back policy forces the upline to be at his best because the moment a downline exercises a buy back policy, he might lose future potential income or even has his commission recalled or deducted. This is quite normal as in network marketing, the upline must go all out for the downline and make sure they succeed. A good way to prevent buy backs is to train the downline to be good product users so that even if they quit in the business, they will always remain loyal customers.

Product Synergy

In network marketing (or direct selling), testimonial of a product is critical as it is the driving force of the industry. Citing a money back guarantee gives prospect the confidence to try the product.

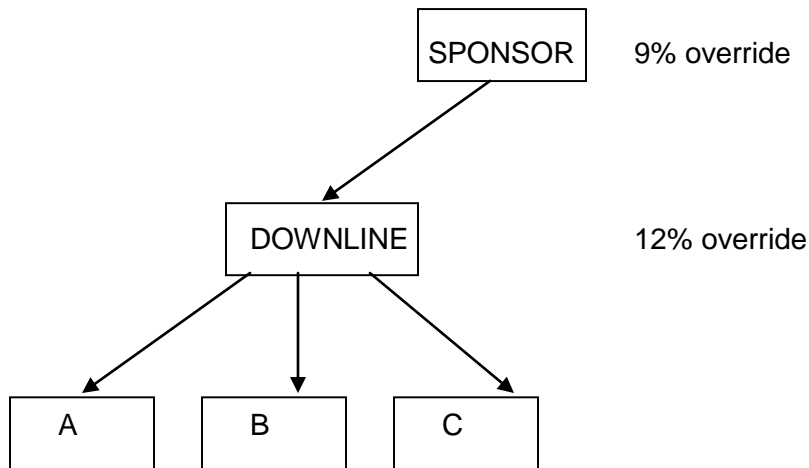
Starting a New Company

If you decide to include a money back guarantee in your new company, you must be very careful as you are absorbing the costs for any type of refunds. It is no point to keep a customer's money anyway no matter how much you try to stop them from getting back as complaints to the consumer associations or even BAD word-of-mouth can destroy your reputation. In the end of the day, you must make sure your product is superb or else people will accuse your company for being a Ponzi or Pyramid Scheme.

Breakaway

Breakaway is a feature found in most Unilevel or Stairstep plans where a downline reaches a target faster than his upline.

Here is an example:

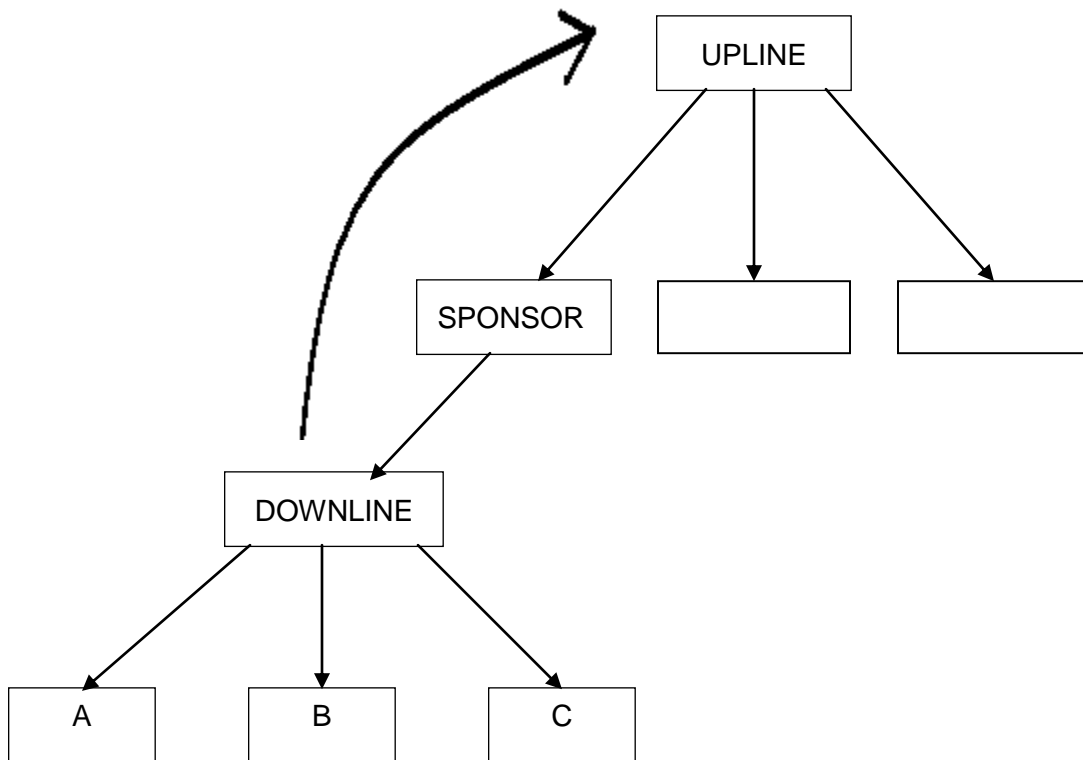


Let's in this company, you need to recruit three downlines in order to advance from having a 9% commission to 12% commission. The SPONSOR has to recruit 3 downlines then only he goes to 12% but his downline achieves this criterion before him.

This is a very common scenario on network marketing because you can't possibly as a downline to slow down (it is HIS business after all) and different people put in different amount of effort.

Depending on the company plan, a breakaway in this case means that the upline will no longer be eligible to receive commissions from the downline group forever. The commission that is due to the UPLINE will go to HIS UPLINE (the one even higher up) who has achieved the rank higher than all those under him. In some cases, the downline will even bypass his sponsor and his entire group will join his new upline

(see diagram)



Downline Building Strategies

It is very important to understand that the upline and the downline are all part of a team and as a team you have to work together. At the same time as helping the downline, the upline must work his own share as well. In some cases, depending on the relationship within the team, the downline may opt to 'wait' for his upline so all can achieve the goal together without leaving anyone behind.

Proper team planning and relationship building is very important to prevent factors like **sabotage** (the upline deliberately 'slowing down' the downline to prevent breakaway).

Product Synergy

In spite of the disadvantages of breakaway, it is very important for the upline to put in a lot of hard work. For example, if an upline sees his downline growing very fast, he will work harder to generate more product sales so he will be eligible for bonuses and also 'catch up' with his downline.

Starting a New Company

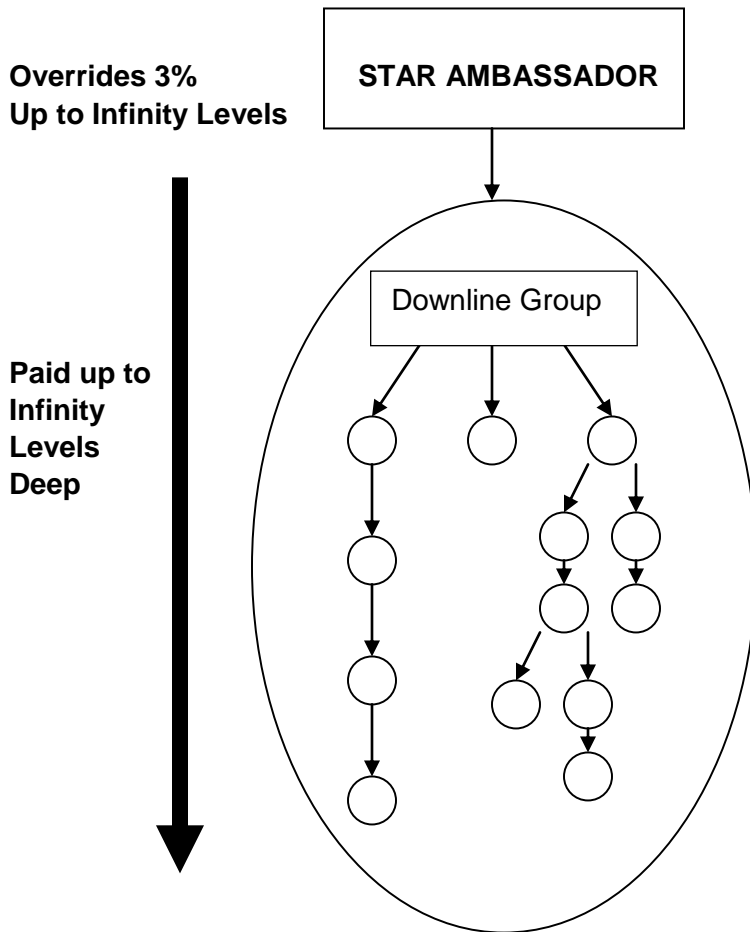
Breakaway has his advantages and disadvantages. The advantage is that it rewards distributors for hard work. Whoever recruits more or moves more products gets more rewards. This is very important for the company as you don't want to pay out unnecessary commission to free-loaders. The disadvantage as the company, you must strike a balance between to fairly reward all parties. This is tricky and requires planning.

Infinity Bonuses & Blocking

A company may pay an achiever up to infinity levels of commission once he has built a solid organization.

Normally this reward system is useful for people who step up to the challenge to be leaders and are willing to work depth in his organization. Infinity bonuses also reward those leaders who help their downlines no matter how deep below they are within the organization.

Observe the diagram below:



As you can see, the star ambassador is like a leader who is servicing his entire downline group and therefore, he deserves to be paid 3% from everyone in the group.

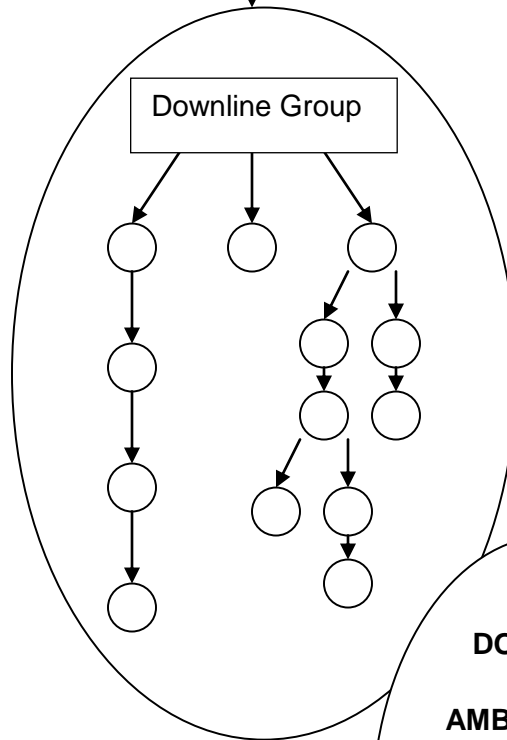
When a downline reaches a level that is similar or higher than the upline (in this example, let us call him a STAR AMBASSADOR), the upline usually only receives infinity level overrides up to the downline that is also a Star Ambassador. This feature is known as **BLOCKING**.

Observe the next diagram:

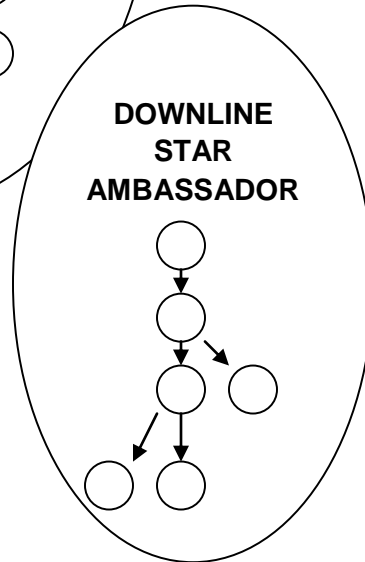
**Overrides 3% up to
Infinity Levels until
The Next Star Ambassador**



**Blocked
At the
Next
Star
Ambassador**



**No more 3%
Commission
From This
Level Onwards**



Note: There are more bonuses to be awarded to the upline for nurturing a strong downline. Normally in the form of bonuses or eligibility for higher ranking.

Downline Building Strategies

Identify the strongest ones in your downline group and train them to become leaders so you will be able to leverage on them. In other words, that downline will keep on building the group long after you have stopped being directly involved with them. Although you may not draw infinity bonuses from their group, the company usually will give you a leadership bonus on the downline leader's group. Usually the leadership bonus is smaller than the override or retail bonus, but **it is like getting a smaller slice of a much, much larger pie.**

Product Synergy

Infinity bonuses can be really powerful and generate massive residual income if done right. If you were to train all your downlines in your group to be loyal product users, and you were to get 3% from all the volume, you will earn something like this:

3% * 1000 downlines (each buying \$500 every month) = \$15,000 monthly!!!

Starting a New Company

If I were to start a new company and give out infinity bonuses, you have to be very precise on the blocking system especially when you are using a binary plan (because of overpaying).

This is a topic that is very plan specific which I will not discuss here but will be explained in a later book.

The rule of thumb to remember is this:

Reward leadership and do not cater to free loaders!

Summary and Closing

There you go! You have just run through the basics of *Network Marketing Structure: Part 1!*

A quick recap of what you have just learnt:

- Why marketing plan training is very important
- By mastering it, save you time and money on training and lost sales
- Learning all the important terminology
- Discovered the truth regarding marketing plan misconceptions
- Strategize how to build your downline with the information
- Know the importance of Point Value to Cash Calculation, Payout
- Transparency, Buy Back Policy, Breakaway, Infinity Bonuses and Blocking

ALL this is just the icing on a delicious cake. In the next chapter, you will learn

- Manipulating marketing plan mechanics to climb the ladder of success faster
- Mastering the pitfalls of **demotion**
- Maximizing your profits with stocks that can be used to sponsor new downlines
- How to use **maintenance** to your advantage regardless of which company you are a part of
- Lots more diagrams and illustrations on exciting new topics!

Read part 2 now to find out how you can take one more step towards network marketing success!

SEE YOU AT THE TOP!