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PERSONAL PLANNING

Guidebook #77:

***Networking Your Markets*..... 3**

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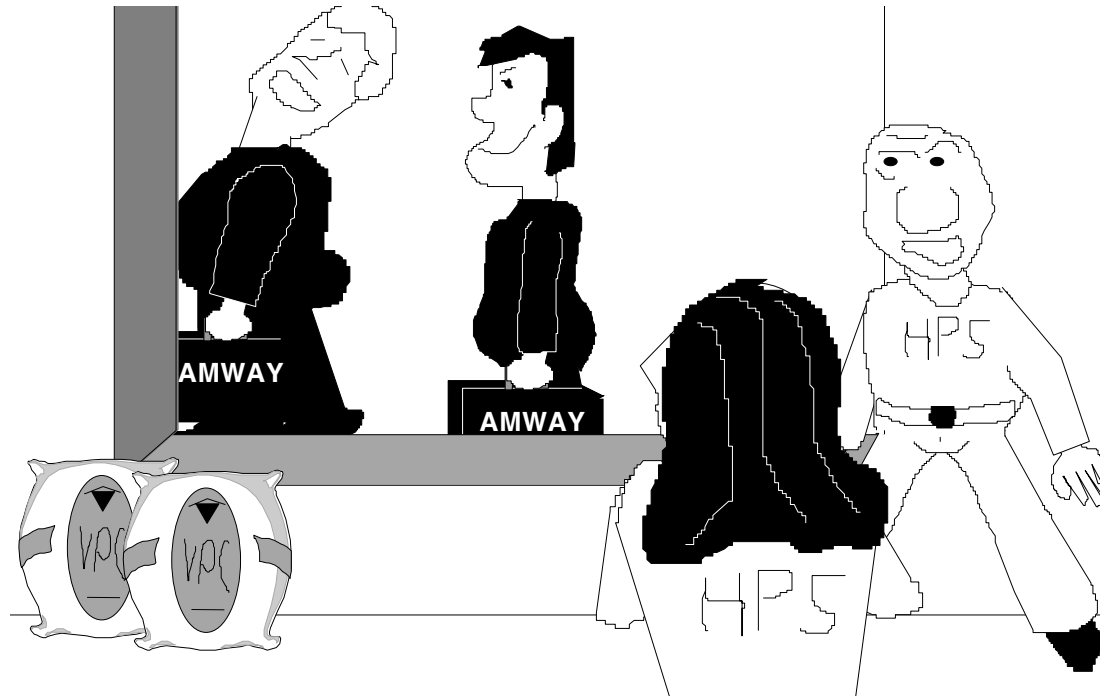
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“Quick . . . Hide! It’s the AMWAY people again.”

NETWORKING YOUR MARKETS

AS FAR AS its proponents are concerned, word of mouth marketing is the most exciting marketing concept since franchising. When it reaches maturity, most likely in the next ten or twenty years, there is a good chance it will become a permanent part of the world economic landscape, and just one of the many marketing arsenal tools a small business person has at their disposal.

However, its opponents believe it is essentially fueled by distributor greed and short term sales rather than long term service. And although it has been around for a long time, it pretty much will remain in relative obscurity, popping up every now and then when the local economy takes a nosedive.

WHAT IS NETWORK MARKETING?

CALLED word-of-mouth marketing, multi-level marketing, and the not so kind “pyramid scheming,” network marketing is believed to be in the 90’s and beyond what franchising was to the fifties and sixties.

Franchising in the fifties and sixties was considered somewhat shady, not truly legit. But over the years, it has gained considerable respectability. Multilevel marketing has yet to achieve anywhere near the same measure of success, but in time, its proponents believe it will become as important as retail, wholesale, and franchise marketing.

Network marketing today holds the greatest promise of any marketing innovation for accomplishing the goal of educating consumers about new products and services. It’s going to be an extraordinary decade.

PAUL ZANE PILZER

Presently, there are over 2,000 network marketing companies in North America. Most independent distributors work part-time and about 80 percent are woman.

How it Works

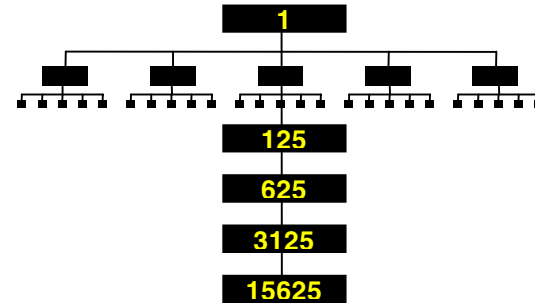
Network marketing is a selling approach where the parent company sells its products to what they frequently like to call independent distributors or independent consultants. Independent distributors operate like independent contractors or sales reps rather than employees of the company.

Typically, these distributors buy products from the parent company at a discount and then resell them at a suggested retail price to the end user so they can realize a

profit. The retail selling is often done at house parties, group sessions, door-to-door selling and personal selling to friends, relatives, neighbors and acquaintances.

However, the real appeal of network marketing lies in its intricate commission structure, which encourages distributors to recruit new distributors and in return, receive a percentage of the new recruits' sales. This arrangement may extend through several levels, meaning that if a distributor is good at recruiting others to sell the parent company's product, the distributor will end up receiving small commission checks from hundreds and maybe even thousands of down-line distributors. These checks can quickly add up to thousands and in some cases, hundreds of thousands of dollars a month (see chart).

Creating a Distribution Force Using Network Marketing



NETWORK MARKETING can help create a huge sales force. After developing a sound (and legal) commission structure and marketing policy, recruit five or more dedicated distributors and teach them how to recruit new distributors as well as how to sell your products retail. If each of these distributors replicate this process, before you know it you have a sales force of more than 15,000 distributors pushing your products.

Commission Structure – The chart shown on the right and continued on the following page, outlines a commission structure similar to the one used by NuSkin International Inc., a large and profitable network marketing company.

Example – For the month of January, Fred Brown sells \$500 worth of merchandise (his wholesale cost). He has a total of 62 first level distributors, 12 of which are first level breakaway executives who have also sold \$500 worth of merchandise (he thus qualifies for commissions six levels deep). All his other downline distributors, 9950 in total, plus his other 50 first level distributors, each have sold \$100 worth of

Sample Network Marketing Commission Structure

1. Direct Retail Profit 43% Markup

2. First Level Commissions (received providing personal volume is over \$100)

Personal volume	Commissions
\$100	5%
\$500	10%

3. Executive Commission Bonus (to become an executive and receive this special commission bonus a distributor must have a personal volume over \$500 and a group volume over \$3,000 for two consecutive months after which he or she will receive the commission bonus on the 3rd month and each month thereafter as long as personal and group volumes are maintained)

Group volume	Commissions
\$3,000	10%
\$4,000	11%
\$5,000	12%
\$10,000	13%
\$25,000	14%
\$50,000	15%

NOTE Total commission possible on first level recruits = 10% + 15% = 25%

merchandise. His group volume for the month is $(10,000 \times \$100) + (12 \times \$500) = \$1,006,000$. He has a total of 10,012 downline distributors.

1st Level Commission Calculation

5% of $(12 \times \$500) = \300

Total = \$1,550

2nd to 6th Level Commission Calculation

5% of $(9950 \times \$100) = \$49,750$

Total Commission Paid to Fred

$\$1,550 + \$49,750 = \mathbf{\$51,300}$ (Fred also received an additional $\$500 \times 43\% = \215 in retail profit for a total pretax earnings of \$51,515)

NOTE Over a period of years, XYZ company has found out that the total of all

Commission Structure (continued)

- Breakaway Executive Commission** (once a distributor's first level recruits become executives themselves, the distributor is now entitled to 5% commissions on their sales plus an additional 5% on all downline distributors up to six levels deep providing he or she obtains the required number of breakaway executives and maintains his or her own executive status.)

# of First Level Breakaway Executives	1	2	4	6	8	12
Level 1	5%	5%	5%	5%	5%	5%
Level 2		5%	5%	5%	5%	5%
Level 3			5%	5%	5%	5%
Level 4				5%	5%	5%
Level 5					5%	5%
Level 6						5%

(breakaway executives are not counted as active-first level distributors)

commissions paid out each month, averages out to 33% of wholesale sales. Since their operating cost is 15% of sales and their cost of goods is 35% of sales (50% all together), their total profit on Fred's group volume was 17% of \$1,006,000 = \$171,020. Their total commissions paid on Fred's Group Volume would be \$1,006,000 x 33% = \$331,890.

Advantages of Network Marketing

Little investment on your part is required to recruit your distributors. Network marketing distributors are independent contractors, owners of their own businesses. Little investment is required from you, the company, other than a few training manuals.

Compared to conventional advertising, it cost a small fraction to introduce a product line through MLM.

BEVERLY NADLER

The distributor must raise the capital necessary to carry out your business.

Network marketing distributors are often very zealous and hard working.

On one extreme independent distributors are lazy part-time workers who do little to promote your company. However, on the other extreme they have proven to be very zealous, working much harder than any salaried employee. Many have more drive, enthusiasm, and spirit than regular, full-time employees.

Through network marketing you can recruit a large sales staff much cheaper than conventional means. The main advantage of using network marketing over other forms of marketing is that your company can recruit

a large sales force without the expense of adding full-time employees.

Disadvantages of Network Marketing

Network marketing agreements require considerable care in writing and setting up in order to avoid problems at a later date.

It is advisable, if considering implementing a network marketing scheme, to consult an attorney, as well as experts in this area at an early stage. Like franchising, network marketing is complex and often under attack by regulatory agencies. A neophyte or amateur proceeding on his or her own is almost certain to encounter some difficulty that could have

Network marketing agreements require considerable care in writing and setting up in order to avoid problems at a later date.

been avoided by seeking advice and counsel from a specialist.

Network marketing is closely watched and criticized.

A frequent criticism extended towards network marketing companies is that many of them resemble what is called “a pyramid scheme.” Pyramid schemes are similar to chain letters where the last recipient is asked to send up-line recipients a certain amount of money. Typically, those who start pyramid schemes, get rich (providing of course that they don’t get caught and thrown in jail) where as people who get in on the bottom are taken for suckers. Another criticism of multilevel marketing is the emphasis placed on recruiting new distributors. Little emphasis is

placed on actually selling products to end users.

The network marketing commission structure creates too high of a markup in the eyes of the consumer.

Many people perceive products from network marketing companies to be overpriced, especially when considering the extensive commission structure the network marketing companies must pay their distributors. This perception exists regardless of the fact that the normal distribution of consumer products often involves having a company salesperson selling to a commissioned representative, who sells to a distributor, who sells to a retailer, who finally sells to a consumer.

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This disadvantage is further compounded by the fact that this consumer perception is often true. Network marketing products are quite often higher priced than similar retail products.

A New Direction for Network Marketing

A SERIOUS PROBLEM many network marketing companies experience is the difficulty they have in creating customer loyalty. This is chiefly due to the high turnover rate of distributors. In fact, every new distributor goes through a psychological battle that often ends up with them becoming completely disillusioned with the entire network marketing concept.

Distributors start off with visions of affluence (a vision often fueled by their up-line distributors), become frustrated when they can't make their quotas and get commissions from their down-line distributors, and end up quitting, often dissociating themselves completely with the parent company.

If only the parent company could keep these distributors? If only they realized that distributors are customers first, and entrepreneurs second, and reflected this importance in their commission structure?

To keep their distributors, perhaps all they would have to do is give them a chance to get rich (if the distributors work hard enough) and the benefits of being a preferred customer (if they don't work hard enough, like most of them tend to do). In a sense, this means combining the best features of network marketing with the best features of a wholesale business like *Cosco*. In other words, the key to network marketing success lies in creating a commission structure that has the appeal of belonging to a club (members receive discounts) and at the same time, gives distributors the opportunity to earn extra money (and a few, BIG money).

NOTE Unfortunately, the type of network marketing practiced today, is generally fueled by greed. Only a few people make the big bucks, while the average guy or gal loses money, after having purchased a few thousand dollars worth of training materials and demonstration products.

STARTING YOUR OWN NETWORK MARKETING COMPANY

MANY OF the objections to network marketing can be overcome by doing business in an open and ethical manner and making sure that the distributors know and understand the risks involved. In fact, once you work out all the complicated legal aspects of starting a network marketing company, your most important task will be to set up a commission structure that will encourage new distributors to sign up and

Network marketing offers the possibility of wholly-owned, self-employment enterprise; able to be home-based; the last bastion of tax relief available to the average American; the lowest risk business creation – a couple of hundred to a thousand dollars at most; which can be operate part-time or full-time and which you control completely, because you are the boss!

JOHN MILTON FOGG

stay on – permanently. Keep in mind that distributors are the heart of any networking marketing company. They are not only your best representatives, they are also your best customers.

NOTE Distributors cannot be paid a fee for finding a recruit. Their payment must be in the form of a commission on the sales of the recruit. Be prepared to set up a large computer system to keep track of commission checks as well as orders.



SUCCESSFUL NETWORK MARKETING COMPANIES

Below is a list of some of the more successful network marketing companies:

Amway – Distributes more than 6,500 products ranging from catalog merchandise to commercial business merchandise to health and beauty products. Has more than 2 million independent distributors worldwide with affiliates in over 65 countries worldwide. In 1994, retail sales were \$5.3 billion.

Mary Kay Cosmetics Inc. – Sells toilet preparations, creams, lotions, perfumes, colognes, cosmetic bags and travel plans.

The founders of Amway, Jay Van Andel and Richard DeVos, have parlayed their own net worth into around \$9 billion.

FUNFACT

Has more than 2,400 full-time employees. In 1994, Mary Kay had net sales of US \$609 million.

NSA – Sells water purification equipment, warm air heating conditioners, air conditioners and security control systems. Founded in 1989. Has 125 employees. In 1994, NSA had net sales of US \$112 million.

NuSkin International – Sells health and skin care products, vitamins & minerals, and hair preparations. Founded in 1984, NuSkin has 1,200 full-time employees and more than 100,000 distributors worldwide. In 1994, NuSkin had net sales of US \$363 million.

Shaklee Corp. – Sells vitamins, nutrient preparations, soap & other detergents, specialty cleaning polishes & sanitation goods, toilet preparations, cosmetic goods, and household water purification equipment. Founded in 1956, Shaklee has over 5,100 permanent employees and tens of thousands distributors. In 1994, Shaklee had net sales of US \$655 million.



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