

## A Simple Explanation Of MLM Compensation Plans

There are 4 types of compensation plans used by every mlm in the world. They are commonly called: 1) Stair Step Breakaway, 2) Matrix, 3) Unilevel and 4) Binary.

Yes, there are 4 basic plans... I say basic because although all mlm companies use at least one of these plans, they are sometimes combined as well. We call combined plans “hybrids”.

For example, a company may have a binary front end and a unilevel back end, or a unilevel front end then breaking away into generational bonus on a part of the back end.

These terms front end, back end and break away, etc. are mlm terms ( lingo ) that must be learned if you are to fully understand compensation plans. The term front end is generally regarded as the sponsoring and/ or enrolling income and the back end is the residual income.

I'm not saying you'll need to be a comp. plan expert to make a fortune in mlm... **BUT IT HELPS!**

These compensation plans or “marketing plans” were introduced to the mlm industry in the order you read in paragraph one.

Prior to the early 1980's, we had the Stair Step Breakaway's. Companies like Amway (now Quick Star in North America), Nu-Skin, Herbalife, Watkins, Shaklee, Reliv, Pre Paid Legal and many more used these plans and had their success.

In the mid 80's we saw the introduction of the matrix by a company called Melaleuca.

The early and mid 90's were when the unilevels took effect by companies like Freelif, Life Plus, Nu Vision and ACN.

And finally, more towards the late 90's and into the 2000's we saw the influx of binary's.

There were so many companies that came and went using this binary plan I can't even mention them all, however, the companies that are using them and still in business are companies like Usana, Market America and Innerlight, to name a few.

### **Stair Step Breakaway:**

This plan is an oldie, and up until the unilevel was as close to perfected as can possibly be, we can say it was a goodie. Again, that was until the unilevel proved to be the preferred plan by start up companies, who, if it wasn't for the unilevel, would've probably used the "breakaway".

The Stair Step Breakaway usually requires a \$100.00 active status ( personal volume requirement to get paid) and requires others to do the same. The whole point being, when you start the sponsoring ball rolling, one person with \$100.00, then another, then another, your group volume starts growing.

There are no width restrictions in this plan, meaning you can sponsor as wide on your level one as you want. When the volume in one of your legs ( personally sponsored people's group) hits by or around \$5,000.00 , that's when that group breaks away from you, thus the term "breakaway". Then the company requires you to have, depending what company it is, at least \$750.00- \$3,000.00 of "side volume" ( volume outside of that breakaway leg ) to qualify to get paid usually 5% of that breakaway volume.

That's where, in my opinion, these plans fail... If you don't qualify for your break away volume, that "generation" rolls up to the first qualified upline who does get paid on it.

There are 2 major problems with this: 1) People don't like not getting paid, so they're encouraged to: 2) " side load" or " garage qualify" themselves, to qualify to get paid or if they don't qualify, usually for 2 or 3 months, that generation that is under them permanently rolls up to the first qualified upline and they lose their group or not... It may just compress up, so the qualified upline gets paid on it, then it gets put back under them, month after month, year after year, until they finally qualify for it or quit... Either way, the qualified upline gets paid.

My concern is that the qualified upline really doesn't have massive incentive to help you get paid, because they get paid whether you qualify or not, and that my friends is not what I would call a win/ win situation.

The potential for people side loading themselves to qualify is so great that they probably do not have a lot of incentive to buy new product to stay active, so these companies highly encourage their people to retail out the product to basically get rid of it, which is better than getting stuck with it. It is true that the better companies have a return policy, but often it's only 30 or 60 days and people don't usually quit in that period of time, so...

Because of this, in the mid 80's, we saw the introduction of the :

### **Matrix:**

The mlm company Melaleuca, was first to come up with the concept of the matrix comp. plan, or at least the first company to make it work. (mlm trivia note: be careful when you refer to Melaleuca as an mlm company. For some reason, they take offense to the term mlm... whatever)

This plan takes the best of the breakaway, approx. a \$100.00 active status but leaves out the negative,... NO MORE BREAKAWAY. Commonly termed "No more break away's or take away's."

The actual term matrix is referring to the limited sponsoring width requirements. For example, Melaleuca is a 5 X 7 matrix, meaning you can sponsor 5 people on your first level, then you have to start sponsoring people under people to help build your matrix... 5-25-125, etc. until you build a 5 by 5 matrix down to 7 levels.

Hey, how about that, no more breakaways, no more take away and the upline actually has to sponsor people under you... WOW!

The problem with this, well one of the problems with this, is it goes against the basic principle of teaching people how to fish vs. fishing for them. Sure, it initially sounds good that you're going to get people placed under you, but long term this is proven to not be a working yourself out of work, by teaching people how to work concept.

That's why, to date there are only 2 companies using this type of plan. Look at it like this, if it was so good many more companies would be using it.

The reason Melaleuca is using this plan with decent success is because they were the first to implement it and a huge part of their recruiting strategy was to speak negatively about the break away companies like Amway and Nu Skin.

I'm not a fan of "negatively recruiting" strategies, so to me, this is not a powerful way to recruit.

The matrix has other bells and whistles like perhaps car bonuses, advancement bonuses, the ability to go wide when roll up happens and other leadership bonuses, so you can make some good money with them.

The better plans in general will have a monthly compression feature which means if a person in your group is inactive, the person under them moves up a level and when this compounds throughout your entire group, this can mean significantly more volume coming up into your pay levels increasing your income, in some cases, by thousands of dollars a month.

In fact, a monthly compression feature is so important, I wouldn't even look at a company unless they had one... (mlm side note: Melaleuca has compression after the second month of inactivity which is better than not having it, but obviously not as good as having a monthly compression feature.)

These plans worked relatively OK, until the industry really got smart and came up with the concept of the :

## **Unilevel**

The unilevel plan came to be in the 90's and gave us the best of the breakaway (unlimited sponsoring on level one, without the take away and the best of the matrix, approx. a \$100.00 active status to get paid on your organization).

The major consumable product players that came out with this plan in the 90's were: Freelif, Nu Vision and Life Plus. These companies changed the face of Network Marketing as we know it today. This plan generally pays 6-7 levels deep, Freelif being the only 10 level unilevel in the industry.

Since these companies proved their success, Freelif being by far the greatest, other companies started duplicating this plan and today, we see the unilevel as the preferred plan for consumable mlm

companies. Companies like Tahitian Noni, XanGo and ACN are also unilevels. Noni an 8 level, XanGo a 9 level and ACN a 7 level plan.

We find that the best unilevels are those with “hybrid” type features.

For example: Freelifes 10 level unilevel includes check matching, 20% cash paid to the enroller on over 100 personal points and generational bonuses to name a few.

Some unilevels, like XanGo are good plans but are, in my opinion, too structured and force you to place volume under personally enrolled people, whether they’re leaders or not, in order to maximize your pay.

Freelifes, on the other hand, let’s you work with people in your personally enrolled genealogy allowing you to drive depth and work with workers and count those leaders in depth for you to move up in leadership levels. This “depth driving” feature can possibly be the single most important feature in this plan.

These “state of the art” unilevel plans are, in my opinion, the best comp. plans for consumable product companies They allow a person to actually consume what they’re active status is without having to load up on extra product to qualify for breakaway volume and when you add on the hybrid features, some of the largest incomes in mlm are being produced by them.

On top of that, when you add on monthly compression, roll up and customer volume counting as personal volume, like Freelifes plan, you have the absolute best plan in the entire mlm industry. That’s why Freelifes is the fastest growing mlm in the world, according to the D. S. A. ( Direct Selling Assoc.)

( mlm side note: The company Vibe is also a unilevel, but doesn’t

have monthly commission and, in my opinion, requires too much structure similar to XanGo.)

Then we saw the introduction of the:

## **Binary**

I'm going to try to keep this as simple as possible. The binary was introduced in the 90's to combat the, what was thought of in that time, as the negative name recognition of network marketing.

The binary companies like Usana and Market America took pride in the fact that you only have to build 2 legs ( bi meaning two ) and you can potentially, note I say potentially, get paid on unlimited depth in your group, thus NOT considering themselves a “ multi level” company because in reality, there are no levels... Just 2 legs going straight down.

So how do you get paid? Good question. The original binary's were what we call a 50/ 50 match binary.

You sponsor people on your left leg, then match that volume in your right leg and you get paid a percentage of that volume. If you can do this match weekly, you'll get paid weekly. This all sounds good because, like the matrix, you must place people under people promising them that you'll build their outside right leg and all they have to do is build their inside left leg.

So what happens now? Because most people never get their

balance, the term “ binary blues” was derived meaning you would have a ton of volume in one leg and very little in another, so although you were being built under, you weren't getting paid on it... Just shoot me!

My goodness... all that volume and not getting paid? Well then who's getting paid on it? You got it, the few power upline and the company. That's right, binary's create the highest percentage of breakage to the company out of all the plans. In fact if you added up all the breakage combined in the 3 other plans they probably still don't add up to the amount of breakage the binary companies keep.

The term breakage means the amount of money a company can pay, but because you don't qualify for pay because you didn't match your legs, they keep the money.

That's where you have the term flush and non- flush binaries.

The better binary's, if you can say better, don't flush the volume monthly and although they probably flush it yearly, they're still considered to be non- flush binary's.

We also saw the introduction of hybrid like binary's with features like a one third/ two third match instead of 50/ 50. We even saw what was called a multi match and matching on the weaker leg... Blah, blah, blah.

The truth is, these plans worked best for single, non- consumable, product companies like the old pre paid calling card and travel card deals.

Once you start having to focus on consumable products, you have to take the focus off of the matching and it's a catch 22. You're either going to be too product driven, where your testimonies are,

and probably not get paid, or too money matching driven and not create enough product loyalty.

In my opinion, although there are still some binaries out there, they are very difficult plans to create a long- term residual income.

Remember what that word residual means... On Going Income.

How can you have on going income without a consumable?

Usana and Market America are consumable companies, the binary, in my opinion, is a major reason why they've been flat for years.

MLM sidenote: Monavie is also a binary.

Their growth stems from an influx of ex-Amway people who do not understand mlm comp. plans.

So remember this... Although these 4 types of compensation plans are probably a bit confusing to understand. They can very possibly be the major reason why some very talented people can barely earn \$40.00 a month, while others with a lot less talent can earn \$40,000.00 or more a month.

I put this article together with the hopes of empowering you in the area of compensation and help you get to the point where you can at least somewhat explain the differences in these plans when you're talking to mlm people and at least get them interested enough to do a 3 way call with your upline who may temporarily understand this a bit better, until you keep doing and keep learning and become the mlm professional you know you are.

Thanks for reading and I wish you massive \$uccess.

Joe Gentle

All views expressed in this article are solely the opinion of Joe Gentle and are not to be wrongly interpreted nor used for negatively recruiting but instead used as an educational tool on compensation plans.