Compensation Vs Pay Plan
Evaluating the Difference

by Mike Akins

Selecting the right program is one of the most important decisions the network marketer can make in his pursuit of success. There are many factors to consider when evaluating a business opportunity. The equation for success contains many factors. Only when you have the right balance of these factors do a majority of participants in a program achieve a degree of success. Each of these factors influences the effectiveness of the other factors. One important factor is the program's ability to produce compensation for a great number of its participants. One common mistake made by the majority of networkers is to evaluate the potential of a program to produce income solely on the merits of the pay plan.

Compensation vs. Pay Plan

In order to determine the potential of a program to produce income, you must understand the difference between the dynamics of compensation and the dynamics of a pay plan. A pay plan is primarily a schedule through which commissions and bonuses are theoretically paid. A compensation program includes all factors that produce actual compensation. There are several factors that affect a program's potential to produce income that are not components of a pay plan. Historically, an exclusive "cutting edge flagship" product is able to effect the potential of a program to produce compensation better than a lucrative pay plan. Often, a well-narrated toll-free hotline can assist the part-time distributor in earning more compensation than a few extra dollars up front. An exclusive product or a toll-free hotline would be considered compensation factors but not pay plan features.

Other compensation factors that you may want to keep your eyes open for include: professionally designed literature and marketing tools, competent management and staff members, credible endorsements, an internal product research & development division, an efficient service department, effective upline support and mature company leadership. A company must balance its investments between all compensation producing factors. A program may pay more on paper but lack the dynamics to attract and retain a great number of distributors. It is possible for a company to invest too much into a pay plan while neglecting other vital areas that are important in producing compensation. The end result is that the distributors actually earn less in compensation. The key is balance.

A Principle of Geometric Growth

You cannot determine the real potential of a program to generate income without understanding the concepts and principles by which the industry operates. There are certain business principles in the network marketing industry that will affect the success of a program. Your understanding of these fundamental principles will affect the criteria through which you select a program and judge its potential. Also, your marketing philosophy will affect your marketing strategy and may determine your success or failure. One important factor to keep in mind when developing long-term strategy is the principle involved in geometric growth. In a pyramid "type" structure, 80% of all members within your downline will be on the bottom level of the pyramid. There will always be at least 75% of your organization in a negative profit scenario. You cannot "outgrow" this dynamic, it is a percentage factor.

The difference between pay plans will not have a significant effect on this ratio. A compressed program that pays 50-60% on the first two levels will have 1 out of 4 or 5 distributors in profit. A traditional program that pays 10% per level will have 1 out of 8 or 10 distributors in profit. From a percentage perspective the compressed program will have 75% of its members in a non-breakeven position while the traditional program will have 80-90% of its members in the same position. Based on internal consumption, either way, you will have a minimum of 75% of all distributors in a non-profit scenario. This is a percentage factor; you cannot outgrow this challenge. Because of this factor, you cannot build a solid organization solely on "money focused" networkers.

The Principle of "Tier Structuring"

In a successful network marketing organization there must be several tiers of participants such as strategists, leaders, full-time marketers, part-time marketers, hobby enthusiasts, product users, and customers. Companies that have been around several years and have maintained annual gross sales of hundreds of millions of dollars have been built on the tier foundation. Many leaders in the industry are amazed that some of the older programs, with outdated pay plans, maintain such high annual sales figures and huge distributorship bases. The key is a "tier driven" distributorship base. It doesn't matter how lucrative a pay plan is, you cannot build a solid organization with only "money focused" networkers because it will unwind from the bottom up.

Eventually, 75% of purchasers must be product users or customers who do not have a primary interest in income. As an example, an organization of 500,000 members will have approximately 400,000 members on the bottom of the matrix. That is an example of the simple dynamics of geometric growth. Can you imagine how many new members these 400,000 marketers will have to recruit to earn a decent income? It is a mathematical certainty that you must have more "product users" than income earners. In order to attract these types of individuals, the program will have to include features that will focus on the needs and interests of this particular group. The company must invest in areas of the program that support strong product and service oriented features.

"Tier structuring" requires time. Programs that overly promote pay plans and "quick money" attract a segment of the industry that have unrealistic expectations and generally are impatient. This approach will generate excess attrition. A "true" networker should have a minimum of a one to three-year "plan of success." This timetable is vital in order to develop a solid foundation for success. There is a segment in the networking industry that "preaches" that if a distributor is not in profit in 60 days they are gone. It is very unrealistic to believe that a majority of networkers can be into profit in 60 days. For example, let's say that each marketer enrolls three members in their first month. This will yield them a total of nine distributors in their group in the second month and should put them into profit. To follow through with this geometric growth pattern, there would be 797,160 people in your organization in one year. Out of this 797,160, only 88,572 will be in profit. You have to develop a "tier structured" organization or eventually your organization will unwind. Generally, the "quick money" will begin to create excess attrition within the first 90 days because they are promoting that "dogma" and attracting individuals with about that much stamina.

When you examine a program, look for balance. Consider the whole equation for success. Don't be fooled into believing a pay plan alone can sell a program. The company must balance its investments between pay plan and other factors that will support you in your sponsoring and building efforts. Examine long-term company strategy. All of these factors will affect your success. When you examine the actual pay plan, look for a balance of factors that will reward the part-timer quickly, will attract the experienced networker (who will provide vision and leadership), and leave enough money for the company to invest in other vital areas of common interest.

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