

How To Evaluate Any Network Marketing Opportunity - 4/17/2001

by [Sanford Botkin](#)

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J. Paul Getty once said he'd rather have 1% of 100 people's efforts than 100% of his own. This philosophy fits the multitude of new entrepreneurial network marketers-those people who have found themselves looking for either part-time or full-time work, caught in the crossfire of today's corporate penchant for downsizing. Why work for someone else who can lay you off on a whim? Work for yourself, get others to work with you, and earn more than you even dreamed of is the network marketer's theme song.

Walk into a hotel lobby, restaurant, or friend's living room almost any evening of the week, and you will find anywhere from 5 to 100 people listening attentively to enthusiastic speakers explain the benefits of becoming a distributor or representative for the products and services of Amway, Colgate-Palmolive, Free Life, Gillette, Mannatech, NuSkin, New Vision, or KAIRE International, among others-all companies that are part of the new wave of network marketing-friends selling to friends. These companies are joining over 1,500 companies today that have already found network marketing to be one of the most effective ways to get their products distributed quickly.

Because of job insecurity or loss caused by corporate downsizing, many people are looking for part time opportunities that will help them develop useful skills and earn extra income. They want these opportunities without large liabilities or large capital investments. Network marketing is seen as a way of meeting these needs. The Home Based Business Journal reported in its May 1996 issue that home based businesses average an 85% success rate and a less than \$1,000 investment. While non-homes based business average an 11% success rate and a \$22,000 investment. With virtually no overhead, no employees, and no law suit worries, costs are low. Most network marketing businesses validate these high success rate-low investment possibilities.

Consequently, don't be surprised when the engineer next door or the corporate manager from across the street calls, offering you a chance to earn some money in your free time. A few days later, you find yourself on your way to your first meeting. You do it as a favor to your friend, and you're skeptical, of course, but you're also a bit curious. After all, you saw some homeopathic supplement in your doctor's waiting room last week and were shocked to find out he was a network marketer. What's the deal?

In the meeting, you look around, are slightly uncomfortable. You've dressed casually and find yourself in a sea of suits. The man on your left is an accountant, the woman on your right a journalist. You begin to dismantle your stereotype of who does network marketing. You find out that, for the most part, the people around you are already making good salaries in full-time jobs, however few feel secure, and they are looking for a safety net.

You listen to the sales presentation, done by one of the company's top producers; you're promised the possibility of earning a significant six-figure income if you are persistent. Moreover, you learn about the tremendous tax benefits available to small businesses. Your skepticism begins to diminish as you wonder if network marketing isn't something you should consider. After all, you hear, more new millionaires are coming of network marketing today than any other sales field.

This is point in the evening when you need to stop and breathe deeply. Before you decide to get caught up in the enthusiasm, which will be contagious, and buy in immediately, take this advice: Let the enthusiasm cool off. Then begin the process of deciding which company to join by finding the answers to the following 10 questions:

1. How stable is the company? Two ways to judge a company's stability are: first, get a credit report from Dunn and Bradstreet. Second, find out how long the company has been using network marketing. Most companies never survive two years. Therefore, at least two years in the business is a good yardstick in judging a company's stability.

2. Does the company stand behind the promises it makes about its products? This question is important to ask product companies. Call the company and ask these questions:

- Does the company validate their products' claims, e.g., does a health food product have clinical trials done by independent laboratories?
- What is the company's refund policy if the customer is not satisfied? How quickly do they refund the money?
- What is the company's buy-back policy on inventory purchased by distributors? Most companies promise to buy back inventory not more than a year old. But sometimes this policy is illusory because of the complex administrative hoops the distributor must jump through and because there is no limit on when the refundable money must be paid back to the distributor.

Finally, buy the product and try it. Do you like it?

Does the company want you primarily to (1) sell products/services, (2) recruit people, or (3) both? Most companies want you to recruit people to distribute who in turn will recruit people to distribute who in turn will recruit people to distribute. But if the company is only recruiting people and no one is selling the product/service, you may want to look carefully at the company. Will the distributors use enough product to keep the company afloat?

Further, you may just want to market a product and not manage a whole sales force of downline (the people you get to sign up under you) distributors. If so, find a company that will let you do that. Your commission should be enough to let you make money retailing the product or service without having any downline. This means that the commission paid on retailing should be about the same as the commission paid on recruiting new distributors. Nevertheless, it's useful to remember that most of those who earn top money in network marketing are the people who are able to get others to overcome the stigma of network marketing - to recruit, train, and finally support people (called their "downline") who are able to get others to recruit, train & support people, etc., etc.

Will the products sell? Before you buy too much inventory - a good guideline is don't buy more than you can sell or use in a month - do some comparative shopping to find out answers to these questions:

- Is the price of the products reasonable? Can customers find just as good a product on the market for less? Usually network marketing companies offer products which are only available through them and which are claimed to be (and may be) better than those offered elsewhere.
- If the products are not unique, are they priced competitively?
- Are the products so desirable that people will continue using them and recommending them even if they stop being distributors? This is an important question, since most companies have a high attrition rate among distributors.
- Will the products sell even if not marketed through network marketing.

Does the company really have momentum? Every company will claim that the time to join is now because of the "S" curve, a curve that marks rapid growth times. Momentum is important because growth magnifies efforts. If you join during a growth period caused by either the age of the company, or by introducing a new product, or by getting a new patent, this growth can attract new distributors and more sales. If the company or product is growing at 3% a year, your business growth will mirror the 3%; but if the company or product is growing at 30% a year, then your business growth should also mirror that percent.

What kind of sponsor support is offered? We can't overstate the importance of this answer. Not all sponsors are created equal. The person who takes you to the meeting becomes your sponsor if you sign up under him or her. You are locked into that person for a long time. To avoid this, don't sign up immediately. You can wait, shop around, and find a sponsor who is known to provide strong support to his people. It is not polite for a sponsor to accept you at a meeting if you have been brought there by another sponsor. You will need to get the person's card and call them after the meeting. Be careful even if you are signing up only to buy the products at wholesale. You may want to become an active distributor later, and you will be locked into the person you are buying from. To find the right sponsor:

- Attend several meetings in your area.
- Introduce yourself to numerous successful sponsors.
- Evaluate their reputations. Ask them what they do for their people and how long they have been doing it.

Some sponsors are like robots, signing up everyone but supporting none; others, more responsible, do mass advertising or marketing and pass warm leads along to their downline. One of the major benefits of a network marketing company is that you are in business for yourself, not by yourself: to realize this benefit, you must sign up under the right person.

What kind of training and support do they offer? The statement that "The product sells itself" is rarely true. All companies promise training; few deliver the consistent quality that makes training effective. Evaluate the training and the support materials. Look for:

- Role playing practice
- Good scripts
- Ways sponsors help you to get new leads
- A variety of quality training tapes
- Find out about switching to another sponsor if your sponsor leaves the company or doesn't do training follow-up.

How good are the marketing materials? All companies have marketing materials. Some are better than others. The better the materials, the easier it will be to acquire customers and distributors. They should have multi-colored, glossy, up-scale brochures which contain two elements. First, the brochures should stress benefits offered to the customer, explaining why the products/services are right for the buyer. Second, they should convince the customer through concrete evidence that the company is stable, offers low risk to distributors, and has a history of good management. It is, therefore, important to have some third party creditability such as double blind studies or newspaper articles extolling the virtues of the company.

What is the compensation plan offered? After investigating the quality of the products or services offered by a company, one of the most important considerations is the company's compensation plan. Comparing compensation plans from one company to another is difficult. Companies use a myriad of formulas. One way to simplify the process is to ask:

- How difficult is it to make it to the top? Do you need 5 good lines (active distributors under you) or will 2 lines do?
- What do you get by acquiring customers vs. acquiring distributors? Customers, not distributors should be the focus of the company. Thus the compensation plan for selling product/services should be at least as generous as that of bringing in new distributors.
- Does the company offer non-cash rewards? Are the numbers doable and realistic?

Are you pushed to buy a lot of inventory up front to make a higher commission rate? It's better to try a small amount of product first, see how you like it, see if other people are interested in buying it before investing in large inventory.

If you are not satisfied with the compensation plan, you or the people you recruit will not stay long with the company. Even if you stay, you may lose people you have invested time and money in to other companies.

What is the customer retention rate? When a company pays 50% of its revenue for commissions, if the customer retention rate on a product is 5%, your net long-term commission is only 2.5%. But, when the company pays only 10% payout, if the customer retention rate is 80%, your long-term commission rate is 8%. The customer retention rate is critical. To investigate the retention rate, you can:

- Ask the company if its figures on customer retention rate are available.
- Test the product/services to see if you would use it regularly.
- Ask the company for names of satisfied customers.
- Ask for the names and phone numbers of two or three non-repeat customers. Ask if you can call to find why they didn't continue to use the product or service.
- Find out what the competition is offering in the same category and compare the prices. Your product doesn't have to be the lowest for what it offers, if it offers some value that is not offered elsewhere. It also should be marketed well.
- What other miscellaneous benefits does the company provide?

Some companies provide distributors with the equivalent of the franchises without a franchise fee. They not only provide marketing materials but also management information, tax information and even an accounting system. Find out what is contained in both the distributor or upgrade kits. Many times the upgrade package may be the much better deal even though it is more exclusive.

You can't promote and sell what you aren't convinced is the best. If the answers you get to these questions enable you to find and then believe completely in the product or service and its company, you may be among those who find network marketing to be very lucrative.

Sandy Botkin is a CPA, attorney and former trainer of IRS attorneys nationwide. He lectures all over the nation on tax planning for self-employed and corporate taxpayers and can be seen in the big events with Donald Trump, Anthony Robbins and many others. He has been written up in Newsweek and in many other magazines. He is also a syndicated writer and noted author of this famed tape series "Tax Strategies for Business Professionals" and "Tax and Financial Strategies for Residential Real Estate." To find out more about Sandy and his products, check out his terrific small business web site at: www.taxreductioninstitute.com or by calling his office at 301-972-3600 in Maryland.