Business Models Drive the Behavior in the Field
Mentoring for Free
Richard Dennis interviews Michael Dlouhy

Michael Dlouhy: We are going to share some information with you tonight here that can change your life and change your business and guarantee you success in your home-based business.

So, I want to thank everybody again for taking time out and getting on the call. It is my privilege to introduce Richard Dennis tonight. Richard Dennis is our business partner in Mentoring for Free, an amazing individual. He is very well-known in the Industry for creating a lot of great marketing pieces, marketing campaigns and everything, and it is always a thrill to do a call with Richard and have him interview me. It is because all of that information is in my mind. I've been in the Industry 28 years. We joined 100 companies in a two-year period to figure out what I'm going to share with you Guys tonight here. And Richard has got just an amazing way of kind of digging out that information. And the call tonight is going to be ***The Business Model Always Drives the Behavior in the Field***. If you Guys get this, I call it "Owning the crystal ball in network marketing".

So with that, I'll go ahead and turn the call over to my good friend Richard Dennis.

Richard Dennis: Thanks very much Michael.

I heard you earlier introduce Dorothy from Kansas, which I didn't hear if Toto was on the line, but I think it's appropriate because I feel like we are dealing with the Wizard of Oz here tonight.

Michael Dlouhy: You better believe it. This is the magic, Richard. This is it right here Buddy.

Richard Dennis: Of course, the theme of the call tonight is the "Business models drive the behavior in the field." A little bit of background of this: We've been talking about the 5 pillars for a long time now and how important the five pillars are in network marketing. And then I know you are always looking at everything and some months ago, or maybe as far as a year back, you came up with "the business models driving the behavior in the field".

And I looked at this. It took me a while to really get a hold of the concept. But one of the things that I realized, and this is where I'd like to start, Michael, you talk about business models driving the behavior in the field. You know I'm always going to come at things from a marketing viewpoint because that's what I do. And in network marketing, your business depends on marketing. And whether marketing can be effective or not depends on the business model.

When we talk about business models driving the behavior in the field, it's not just the behavior of the reps. The business models also drive the behavior of prospects and customers.

Michael Dlouhy: Absolutely.

Richard Dennis: And I'm not sure that people really see that. If you would, Michael, I'd like to start there, with how business models drive the behavior of prospects and customers.

Michael Dlouhy: OK, well first Richard, let me do this. If the people on the call here, if you are looking for answers on how to build once, build it big, and build it to pay your children's children, then this is the call that you need to be on. There's no question you need to hear this information.

But if you are looking for some get-rich-quick scam, then you also want to listen to this call so you can pick the best scam and know when to jump to the next illegal deal before the Federal Government catches you and puts you in prison.

First, let me give you something straight here Guys, there no illegal network marketing companies; but there are illegal ponzi schemes that mask themselves as illegal network marketing companies. Either way, both of their business models will always drive the behavior in the field.

And all the commissions paid out within a legal network marketing company come from the money that an uneducated person pays to join the scam. And there's never a real, tangible product. Never.

So to answer the question, you've got to look at it this way, do you have a tangible product? You need to ask yourself this question. And this goes right into the reps. Would you have spent the money if there was not a business opportunity involved with it?

So take a look at any business you are looking at, Richard. When the rep looks at something, are they looking at--would they buy that product, would they spend that money if there was not a business opportunity attached to it? How important is that?

So think about this from the business side of it. When you've gotten into a situation where people are paying a lot of money for something that is not a tangible product; in other words, like some educational program; in other words, if you can go on the internet, and you can look up this educational information and it's free, and then somebody just kind of puts it all together and says "Well, it's all right here, and we're going to charge you $1295 for it"; and the person sends the $1,295 in a money order to the upline, the upline keeps $1,000 and send $295 to the company; Richard, I can promise you, you've got an illegal pyramid scheme going on. There's no question about it because there is no real tangible product. They try to say there is, but there is not.

So, let's talk about the business model driving the behavior in the field. And by the end of this call, you're going to have a very clear answer as to why you have struggled to build your business and why it's not your fault.

One of the first things, Richard, I think people must understand is that all the profit to pay your commissions from any company, from a legal company, comes from one thing: the sale of a product to the end consumer. The difference between the cost of the product, plus the overhead, equals the amount of commission that they can pay you.

I've got to say that again Richard.

The difference between the cost of the product plus the overhead equals the amount of the commission that they can pay to the field.

Let me give you guys some examples of overhead, OK? And I want to make something perfectly clear, all legal network marketing companies have awesome products. So, please keep this in mind.

Richard, this is a quote here, and I'm telling you that we need to burn this one into our minds, "Companies with huge overhead always have long policies and procedures that you need a lawyer to read because the company may need to steal your bonus check to pay their overhead."

Hmm.

Let me say that again, Richard. Think about this for a second, think about how powerful that is.

"Companies with high overhead always have long policies and procedures." Think about the companies, think about it. "And you might need a lawyer to read that because the company may need to steal your bonus check to pay their overhead."

You were a victim of that?

Richard Dennis: Oh yeah.

Michael Dlouhy: The company needed to pay overhead because they were not business savvy enough to run a successful company, so they had to send you a letter that said "We are instituting a 30-day notice and after 30 days you're not getting a check anymore because we did away with the pay plan". So that company kept all that money. Wow!

So, there is a perfect, perfect example of that.

What I wanted to do first, Richard, is maybe let's get some examples of product companies driving the behavior in the field. And of course, I cannot mention any company names here, so I'm going to use Company A and B.

And Company A is not publicly traded. They are about 21 or 22 years old now. This company created a business model 20-some years ago, where they said "We're going to take product orders and distributor enrollments over the telephone." Now if you look at that, Richard, that doesn't seem very damaging, does it? Pretty simple, right?

Richard Dennis: Pretty standard, yeah.

Michael Dlouhy: Pretty standard.

So now it's been over 20 years and the company has grown, it's quite large, it's grown to a lot of countries. It's really growing nice and everything is good. But here is the problem. About 4 years ago, Richard, they changed the policies and procedures and put a couple of little glitches in there for the distributors. One of them was "You have to sponsor distributors every month to get a check". So they got people out of retirement. And I talked with a gentleman just a week ago that was making over $10,000 a month income with this company, and because he didn't sponsor anybody for a couple of months because he was ill, his check went to about $280. Gee, Richard, who got that $9,700?

Richard Dennis: Well, we know where that went.

Michael Dlouhy: Aw Geez, it went to the company. Why? It's because the company had to pay the overhead.

Now let me give you an example of that. If you were in this company, if you are a distributor and you joined this company A ; to make $10,000 a month in their compensation plan, (it's a matrix plan) you would need 2,857 people in the pay plan to pay you $10,000 a month.

When I looked at that, Richard, I said, "I think that's a lot of people". I don't know what you think, but I think it's a lot of people.

And I talked to a guy that said "Well gosh, I need 7,700 people, that's not too bad." And I'm thinking "Wow, that's a real big number."

So, what I did, Richard, is I went to the website of Company A and I searched and searched, and what I found was very interesting. They do about 98% or 99% of their business over the telephone. So I did some more searching, and they are very proud of the fact, they brag and brag, that they have over 400 employees answering the telephone. And I'm thinking "Wow, I bet that's expensive".

But again, Richard, I didn't know how to figure that out. I just didn't know how to figure that out.

So I did the next best thing I could do, I called the owner of a network marketing company, the president of the company, known him for a long time, called him up. And he had 350 people doing exactly what the Company A people were doing. So I called him up and I said, "Hey" (and as I hadn't spoken to him in a few years, we chatted and caught up), and I said, "The reason I was calling, I wanted to ask you, do you know what the overhead is for 400 people? You know answering the phones and doing all the kind of stuff, like taking distributor enrollments and product orders?"

He said, "Yeah, Michael, it's a big number."

Well, I said, "Great. How do I know the number?"

He says, "Well, let me put it to you this way. The way you've got to figure it is this: the first thing you need is a building big enough to put 400 people in. You've got to heat the building, cool the building, put lights on in the building."

And I'm freaking out right now, Richard, because I'm thinking "I didn't even think about a building".

He said, "You know you've got to sprinkle the grass, mow the grass, restripe the parking lot, paint the building, wash the windows of the building, and you've got to reroof the building—it's called maintenance."

"Now you put 400 people in the building. Now you've got to clean the bathrooms, shampoo the carpets. Now you've got to put hardware, software, 400 desks, 400 computers. You've got to have managers, assistant managers."

And Richard, do you know that managers make 2-3 times the money that a regular person makes, because you can't just put 400 people in a building and think they are going to know what to do. My gosh, we've got to manage them.

You've got to pay them a salary. You've got to match their Social Security. You definitely got to have a benefits package for them, in case they need to get their teeth fixed or they need to have a baby or have a problem. And you've got to have Workman's Compensation, Richard, on those people.

Hmm.

You've got to have managers, like I said. You've got to pay them time-and-a-a-half for overtime.

The monthly overhead cost for those 400 people, all inclusive, Richard, is a little over $2,000,000 a month! Wow! And see the company is trying to show you and brag how great this is. "Look at the big building we got! Look at all the people we got employed!"

This is not a good thing, Richard.

So, they didn't use technology to make this happen. So when I looked at that, I noted that in this company it creates a behavior of recruiting people, not retailing product. And we'll talk about that in another minute with another example.

Now, so look at that for a second. Just look at the fact that the business model to take product orders and distributor enrollments takes about 400 people, costs them $2,000,000 a month.

I told this to a guy the other day, he says "Well, yeah, but what about shipping the products?"

I said, "We're talking apples for apples here."

Now let me tell you about Company B. Here's another company, sells similar products. These are all product companies we are talking about. They sell products.

Company B, they go in and they said "Huh, let's create a business model that is so streamlined, we can pay more money to the field."

And I'm thinking, "This is smart, this is a good idea!"

So they go at it from a whole different ball game. And what it was, they said, "If we can use more technology, we can hire less people. Less people, less overhead. Technology is cheaper than hiring people."

So the first thing they did, Richard, that was just brilliant, is they built their own software. Now you wouldn't think that's a big deal, would you? But here's why it is: 99.99% of all the network marketing companies go buy their software for their company from a software company that never built a downline. They don't know how to spell "MLM". They don't even really know what it is. But they look at a business and they think "Oh, well this is the software you need."

Well, how about the number one biggest problem in internet marketing, Richard, and I know you know the answer to this? The number one biggest problem is called web-site abandonment. Would you agree?

Richard Dennis: That's a big problem for sure.

Michael Dlouhy: Yeah. So in other words, when somebody comes on board, when they go online and want to order clothes or a vitamin or shoes or a muffler for their car or car parts, whatever it is it doesn't matter; these websites are so confusing, people get confused, and when they are confused they leave. That's what they do.

So the number one biggest problem if you are going to market online is website abandonment. So shouldn't you right from the get-go, have a website that is user friendly?

Richard Dennis: Yeah. You've got to.

Michael Dlouhy: It's mandatory, right?

Let me give you an example. Most companies, Richard (while we are talking about websites let's get this out on the table); most network marketing companies, Richard, have "a" website, one website, it's a company website, OK? And then you've got 2 products, 5 products, 20 products, 50 products you're selling. Whatever?

You send somebody to the website and they are showing you a big fancy building, and you've got to direct people around the website to just sell them a product. You can't just sell them a product though because they've got to pitch them on why you need to be a distributor and they can't let you just buy a product.

And then what happens, and here's the problem, these well-meaning network marketing marketers, they start building their own websites don't they Richard?

Richard Dennis: Yes.

Michael Dlouhy: Yes. They start putting testimonials out there because they know … Let's say I'm selling a weight loss product, I don't want you to go to my website and go through the skincare system to get to the weight loss site. If I'm selling you skincare, Richard, I want you to just go to the skincare site. That's all I want you to do.

So the companies are so stupid you see they aren't marketers, Richard. They put all the stuff on one website. So if you were going to send me to your website to look at your weight loss product, you would have to give me explicit instructions on what to click on, where to go, click here, go there, do this, click that …. Forget it! I'm not going to do that, am I?

Richard Dennis: Well, after the second click, there's just hardly anybody left.

Michael Dlouhy: They're gone. Toast. History.

So then the distributors start making their own websites, and now they've got them in trouble, because now these distributors think, "Well, if I don't mention the company name, if I don't mention the product name, I can make all these claims. I can tell them that it cures cancer, grows your arm back, hair back, your leg back. Blind people can see. If you are 4-foot tall, it will make your 6-foot tall tomorrow."

There's the problem. The companies should supply the site, but they don't. Now people are lost. And now companies start getting complaints. There is a government agency, it's from the Federal Government, when you are making product claims and income claims, the guys with the dark suits can come and lock you up and shut the company down; because the companies are not smart enough to design the websites and tell the distributors, "Just use these sites. These are approved sites. You can't alter them. You can't change them. Just use these sites. If you want to send them to your skincare, send them there. If you want to send them to your fruit juice concentrate website, send them there. Send them there, send them there, send them there."

So, Richard, how important is it to have good websites today?

Richard Dennis: Yeah. It's very important to have those single-product sites, but along with that they've also got to be designed to sell. And a lot of these companies don't have anyone who can do that for them.

Michael Dlouhy: Oh they don't have a clue. They don't have a clue.

So let me go back and talk about Company B. I'm comparing Company A with Company B.

So Company B says, “Let’s create a business model that is so streamlined, we can pay more money to the field.” Makes sense.

So now this company is taking 99% of their product orders and distributor enrollments over the internet. Their monthly cost to do that is called “server space”. And now, Richard, I know you buy server space. And to do this for that company, I checked with the CEO of that company because I wanted to get this right, and I said “Well, about $200?” He said, “Well that’s kind of high.”

So Company A is spending $2,000,000 a month in overhead to just take product orders, because they were using people, humans. Company B is spending $200 a month taking product orders.

Can you clearly see how we have a business model driving the behavior from Company A to Company B where you’ve got to have 2, 857 in Company A, and in Company B about 357 people?

Richard Dennis: Yeah. It’s an amazing difference, isn’t it?

Michael Dlouhy: Yes. And here’s the reality—back when Company A started out, it didn’t seem like a big deal, did it? “Well, we’ll just hire a couple of people, we’ll stick them in this office.” And it grew to a couple more, and a couple more, then there’s 100.

Richard Dennis: The technology changed, and they weren’t able to make the change along with the technology.

Michael Dlouhy: Right. Richard, let me give you a perfect example of that.

Let’s look at Saturn, the car company, and Ford.

Ford right now is doing the biggest buy-out layoff that they’ve ever done. It’s amazing. They are just chopping these jobs because they have grown so big in overhead; they’ve got to cut it.

When Saturn started, they did it with technology. Instead of having 10 people, they got 1 robot that does the work of 10 people. Yeah. One robot does the work of 10 people. Guess what, the robot doesn’t call in sick. You don’t have to have Workman’s Compensation on it. You don’t have to have a benefits package in case it gets pregnant or has to have its teeth fixed. You don’t have to pay it time-and-a-half for overtime. It doesn’t ever file a sexual harassment suit.

Imagine that robot doing the work of 10 people? Hmm. Look at the overhead you've got.

But people say "Oh my gosh, but that robot was expensive!"

Yeah, one time expense man. A little bit of maintenance, change its oil; lube it up once in a while. That thing is working like a Swiss watch.

Overhead. Look at that. Look at the comparison of those two companies, and these are Fortune 500 companies. This is not network marketing. Not network marketing.

So, Richard, the business model will always drive the behavior in the field.

Now, I hope you guys get this.

Richard Dennis: Michael, you've got me stuck on something here, too.

Michael Dlouhy: OK.

Richard Dennis: Well, you made this point a little earlier and then … there's just something I want to emphasize. When you've got a company with high overhead, you talked about how high overhead means the result is recruit, recruit, recruit. Well, in the middle there, high overhead demand high product price. You've got to pay the overhead, so they have to charge more for the product. And what that does is make you in a position where you cannot compete. All the people selling vitamins, or whatever it is you've got, at a reasonable price, and you are at 2 or 3 times their price; you cannot compete.

So that's what that business model does. That is what high overhead does.

Michael Dlouhy: Absolutely. And let me give you a perfect example of this.

I'm going to talk about Company A, B and C. These are all 3 different companies this time, OK?

Company A: Company A has been around a long time. They are publically traded and the people say "Woo Hoo! Man that's a good thing. We are publically traded! Boy that means they're going to be here."

Hmm. Really? OK. Well, they might be here, but can you make a profit in that company?

Now this company is well over 20 years old. It actually owns 4 companies. It's like a billion-dollar conglomerate, man, it's really big. They own 4 companies total. And they did an interesting thing. This was very unique, and you know Richard, I've been around a long enough time I watched this happen.

This Company A goes out and hires a doctor to formulate for them the best, best, best vitamin product on the planet. And what they wanted, Richard, they wanted a vitamin product that a child could take, an adult could take, a man could take, a woman could take. They could take it with food, without food, in-between food; it didn't matter. And this, Richard, had vitamins, minerals, antioxidants, concentrated greens, nutrients, essential fatty acids. This is all-inclusive Man. It's just everything you need. Great!

So this company was selling it for years. Then Company B came along, and they said, "Whew! Man, they've got a great product!" So they went, Richard, (this will blow your mind) and hired the doctor away from Company A and they said "Hey, make us the best vitamin product." And the doctor says, "Hey! The product is pretty darn good. I cannot change the formula, but I could add one more gram of stuff to the stuff to every one of the capsules of the stuff, and then you guys will have the most powerful product on the planet."

Great. So they did. Hmm.

Now, the second company, Company B, is also a publically traded company. And I want to prove to you, Richard, from what you said is the magic.

Company C came along and they said, "Huh! Why did they hire the doctor away from the other company? It's not patented. Don't need the doctor. There's 4 manufacturing companies that make this stuff. All we've got to do is get the formula and see if we can improve it."

So they did. So they improved it a little bit.

But here's the magic behind this, Richard. If you've got a pen write down these retail prices. I'm going to give you the retail prices. Retail, OK?

> Company A retails theirs for $116 for a month's supply.
>
> Company B retails theirs for $104.
>
> Company C (not publically traded) retails theirs for $40.

Same product, identical, in the same box almost. It's almost made from the same company, same manufacturer, you'd think.

But here's a question for you, Richard. I want you to think about this for a second. Would you agree with me, Richard, that any product, I don't care if it's a vitamin, an aspirin, a can of paint, a bottle of water; if the quality of the ingredients, Richard, and the quantity of the ingredients are exactly the same, would you agree with me that the wholesale manufacturing cost to manufacture any product is within pennies of each other?

Richard Dennis: Yes, as long as quality and quantity are the same, it would have to be.

Michael Dlouhy: Yeah, exactly the same.

So you've got to look at this and look at 3 companies independently of each other and you've got to say "Ok, what's the difference?"

Well the big difference between Company A and B, and Company C: Company A is publically traded. Company B publically traded.

Now, stop and think a second. Can they compete with a non-publically traded company? No way. Here's why: First of all in a publically traded company, Richard, (and it's not their fault, it's just the way it is) in a publically traded company, you have got investors that have to make a profit. That profit would be what normally be paid to the distributors. Those investors have got bookkeepers doing the bookkeeping, CPA's looking over the shoulders of the bookkeepers. You've got attorneys from both sides looking over the shoulders of the CPA's. You've got the president of the company, the executive Jr. or Sr. vice-president. You've got the CEO, the CE-IOU—you've got more corporate people. Every one of them has a secretary. Everyone one of them has an expense account, and *WHO* is paying for all those people? Where's all that go? The price of the product.

Richard, the price of the product is directly reflected by the overhead cost. It's just that simple.

So now you've got 3 companies all selling the identical products for those 3 price differences: $116, $104 and $40.

Hmm. What behavior is happening in the real world in Company A and Company B? Is there anybody retailing any of that product, Richard?

Richard Dennis: No. You can't do it.

Michael Dlouhy: No. No. It's like that company that I shared on the training call the other day.

I saw a flyer that came out that said you can buy one can of this stuff for $100 retail, or you can buy it at $60 wholesale.

If you buy 2 cans, it's $200 retail, and it's $50 wholesale.

If you buy 3 cans retail, its $300, and its $40 wholesale.

If you buy 4 cans retail, its $400, and if you buy 4 cans wholesale, its $30.

Hmm? Now what behavior is that company trying to drive? I would say it's recruiting.

Richard Dennis: They want reps, yes.

Michael Dlouhy: They want reps. Recruit, recruit, recruit, because they don't understand marketing. See they are a network marketing company, but they don't understand marketing. Marketing, they don't understand it.

So out of those 3 companies, Company A, Company B and Company C, you've got to crunch the numbers and see how many people you need in:

Company A where they are recruiting. You need 1900 people.

Company B you need 2400 people.

Company C. Let me ask you a question. If you're selling this product for $40, is it easier to tell more product?

Richard Dennis: Sure.

Michael Dlouhy: Perfect. Oh boy! You've got to get this piece now.

Let me ask you a question. If the behavior is recruiting, don't those people go into your matrix, your binary, your trinary, your unilevel, your breakaway, don't they go into the comp plan? They are one of your distributors, right?

Richard Dennis: Yes.

Michael Dlouhy: And now they are buying it wholesale, correct?

Richard Dennis: Sure.

Michael Dlouhy: In most plans in the binary, trinary, matrix, whatever, you make 5%, 6%, 7% basically, right?

Richard Dennis: Yes.

Michael Dlouhy: So now you are making 5%, 6% or 7% on the wholesale price. Or is it better to get 40% on the $40 retail price?

Oh boy! Oh boy! Man, if you guys get that one, you're going to own the crystal ball in network marketing, Richard? Think about it.

Richard Dennis: Let me back up for a minute.

Michael Dlouhy: Oh, I knew you were going to jump on this.

Richard Dennis: No, I'm jumping on something else.

You know, you've talked about the publically traded companies before. One of the things we try to do on these calls is give people benchmarks that they can look for, things that they can spot to tell whether a company is right for them or not.

A few years ago, as you well know, there was a company that had some really strong leadership—people who were very experienced in the business and web-friendly, and that company went public. What happened was, that leadership that was good from the reps viewpoint, got thrown out of the company by the investors who now ran the company, the board of directors.

A publically traded company, I understand where people hear that and they think this is better, but I'm telling you there are huge problems to be had with a publically traded company—not the least of which is they want to choose who is going to run the thing, and who is going to run the thing is rarely going to be someone who is rep-friendly.

Michael Dlouhy: Oh absolutely.

So if you understand that the business model drives the behavior, those people in those companies, Company A, Company B, and Company C—Richard, can they do anything to change that behavior?

Richard Dennis: No.

Michael Dlouhy: No. Not unless they go back 20 or 25 years ago and change it when they first started it, right? It's the only way they can do it.

So understand something: if the behavior in your company, Ladies and Gentleman, drives the behavior of recruit, recruit, recruit … R-u-n! You have to fix it. You've got to make it to where it's at least retailing. Retailing.

Here's why: That's the sign of a pyramid scheme, because when the Federal Government goes and looks at a company, they will ask them "Would you have spent that money for that product if there wasn't a business opportunity?" That's what they start with. And then they go and they say, "OK. Show us all your retail sales."

Now, of course, the companies that have recruit-recruit-recruit have in their policies and procedures "You have to have 70% rule and we're going to make sure you sold all of this product and we're going to make sure that you have to keep your retail sales receipts for 5, 10, 20, 50, 100 years. Blah, blah, blah, blah, blah!"

Again, the companies with most overhead, Richard, the most overhead, have the biggest policies and procedures.

But I want to drive this point home, Richard, about the income for being in the business or getting from a retail position. Everybody on this call, I'm sure, knows a lady named Kim Claver. Kim is a brilliant lady, just a brilliant lady. She loves the Industry, been around several decades, and she wrote an awesome book ***If my Product is so Great How come I can't sell it?***

Now the nuggets, Richard, that I got out of that book (and every book you're going to get nuggets), but the biggest one for me out of Kim's book was she said for two decades she's tracked these numbers. And she says when she talks to 100 people or one of her leaders or one of their leaders or one of their leaders, or one of their leaders … when they talk to a 100 people, these are the numbers. They always get 1 distributor. Richard, would you agree with me that 1 distributor out of 100 people would be a distributor?

Richard Dennis: Yes.

Michael Dlouhy: And she says the other thing is that she gets 10 retail sales. 10 retail sales.

So now, I truly believe that those numbers, I think, are just as accurate as any number I've ever looked at.

Now if you look at Company A and Company B. If its recruit-recruit-recruit-recruit-recruit, is there any way you're going to get those 10 retail sales?

Richard Dennis: No, it's not going to happen.

Michael Dlouhy: Nope, you walk right past them, don't ya?

How about Company B? Recruit-recruit-recruit-recruit-recruit? Walk right past those 10 sales.

How about Company C that drives the behavior of retail, retail, retail? You're going to get the one distributor and the 10 retail sales. Richard, would you run those numbers through your calculator one time? Wow, what a difference! Imagine that. And here's why this number is so critical to understand, Richard. I'm telling you, the business model drives the behavior. 74%, Richard, of your downline (and I know you know this number when you've built huge organizations) 74% of your downline will be product users only. Would you agree with that number?

Richard Dennis: Well, with me it's been a bit more, but yeah, I'm sure that's probably accurate.

Michael Dlouhy: Industry wide—74%.

Now let me go back to the numbers that I quoted earlier. Now, is it better to get 5%, 6% or 7% (this average—because one level would be 2%, one will be 10%, one will be 3%, 5%): so it either pays you 5% per spot, 6%, 7% from 74% of your group; *OR* is it better to get 40% from 74% of your group?

Oh boy! If you get that one you own this thing. You literally own it.

Now I'm going to repeat this one more time, Richard. Companies with high overhead always have long policies and procedures that you need a lawyer to read because the company may need to steal your bonus check to pay their overhead.

Now Richard, at this point we've covered product companies. but what about service companies? And then we're going to go into how compensation plans drive the behavior in the field.

Let's talk about service companies. Most service companies create the behavior I call "churn and burn". There's a company that sells a service. I can't tell you what part of the world they are in because it would probably give them away; but regardless, they sell a service. And I did some consulting with this company many years back, and I found what I felt was the biggest problem in the company. And the problem that I found, Richard, was the product that they sold—the service that they sold stayed on the books for 90 days. That was it. That was the average. When you crunched all of the numbers and you averaged it out, the product stays on the books 90 days.

Now here's the problem. They really, really, really push for you, the distributor, to take advanced commissions, just like an insurance company pays advanced commissions. Let me explain that. Let's say they sell something that pays $10/month commission and they pay you for a year. So let's say you sell this service and they pay you advanced commissions. So let's say December was a little slow because it was Christmas and you were shopping and you weren't really working too hard. And you go out, Richard, and you sell 10 of those, and you get a check from the company for $120 x 10—you get a nice check for the month for $1,200; and you think, "Whew! Man I'm good. This is great! Hey Cheryl, let's go to dinner. Man we got a check for $1,200, this is great!"

Now in reality, Richard, what happens in 90 days?

Richard Dennis: There's no business there.

Michael Dlouhy: Yeah, the product falls off the books. So now what happens? They paid you $10/month for the thing, so it's $120. You get a letter from the company that says "Hey Richard, you owe us $900" because they paid you advanced commissions. And the company really, really, really stresses and pushes you to go advanced commissions.

Now to me that's stupid, stupid, stupid, stupid, stupid, stupid! Take your money as earned, because here's why: Now you owe them $900. You've got to keep working, Richard, to pay back the $900 don't you? So if you sell another 10, they pay you $1200, they take the $900 back, so they give you $300.

But what happens in 90 days? You owe them another $900.

No that's not the distributors' fault, is it? It's just the business model drives the behavior in the field. It's just what it does.

Now when I talked with these people and did some consulting with them, I said, "You know what you need to do, is you need to have some customer service reps and call these people and explain more of the benefits of the program, why they need to keep it. If you could keep them on the books longer, you'd triple your business."

So here is what they did: they put some customer service people on. And then they went in direct competition with the distributors in the company, because when the customer dropped off in 90 days, they told the distributors, they said, "Hey! You've got 30 days to go get Michael back as a customer or we will." So now they go into competition with you to go get your customers. Are you even believing what I'm telling you here, Richard?

Richard Dennis: That's very disappointing.

Michael Dlouhy: But it's the business model drives the behavior in the field. And, Richard Dennis, their answer to this dilemma (you're not going to believe what they tell the people—I've heard this from almost every one of those distributors in that company) "Oh, well you have to out-sponsor the attrition."

Richard Dennis: That's a good one, I like that.

Michael Dlouhy: You've got a calculator, is there any way mathematically possible for you to ever out sponsor the attrition?

Richard Dennis: Well, see the way I'm picturing that is you've got a website up with your unique selling proposition up there in quotes up at the top "We out sponsor the attrition!" What a viewpoint.

Michael Dlouhy: Wow. So in that company, if you joined that company you'd better know this going in.

Now let me tell you something. This company's got unbelievable overhead. Richard, they just built one new building for about $20-$30 million. It's a nice building. And I'm sitting there thinking, "What do they need this … ohhh, I know what they need the nice building for—to put all those customer service reps in there to call your customers and get them back for them."

Oh, by the way, did I tell you they don't give you that customer? That's there's now. They own it.

So the business model drives the behavior in the field, Richard Dennis. Is this clear? Am I getting my point across? Don't fall for the "churn and burn". Churn and burn, churn and burn, churn and burn!

I'm not going to tell you much more about service companies because I'm going to get enough hate mail on this.

Let's go to compensation plans. That's a safe place to go. Compensation plans drive the behavior in the field. Ok? Real simple.

Let's say an Aussie Two-up. What behavior does an Aussie two-up always drive in the field? Recruiting?

Richard Dennis: Recruit.

Michael Dlouhy: And is it ever involved with making residual income ever? Never. Never. An Aussie two-up plan always sells a high-ticket item one time, and then where they make the money is … Let's say I sponsor you, Richard, and you give me your first two sales. So let's say I'm selling the $2,250 deal. You send me your $2,250, I keep $2,000 and I send $250 to the company.

Huh? Let's see what happened. Now I've sold you, but I've already built my way to the top of the plan, so I keep your $2,000, send $250 to the company.

Now, take a look at this, you have to sell 2 sales. So you go sell Bill and Betty. Bill and Betty send the money to me. I keep the $2,000 and send the $250. You gave me your first two sales. This is the business model driving the behavior.

Now what behavior is this creating, Richard? It's recruiting. Slam recruiting. Now if you sell another $2,250 package, there's no commissions paid is there?

Richard Dennis: No, not to you, not to me.

Michael Dlouhy: No, to nobody. So when the recruiting stops, the income stops. That's always tied to a scam and it's always tied to some kind of a front-end load deal that is perfect for the hammered Red personalities. You know Richard, the people that can just sell anything to anybody. I mean they can take your last money that was going for your heart transplant and they don't even blink an eye man. They've got your money and they're thinking "Stupid. What an idiot. He needed a heart transplant and he gave me his money. Well I guess he's going to die." They don't care. Richard, they don't care.

So the comp plan drives that behavior.

Let me give you another one. There's not many of these pay plans left anymore, they are pretty well obsolete; but the old stair-step breakaway compensation plan.

I did a coaching call with a guy back here about a year ago, and we were talking, and this guy is a brilliant trainer and he's with this company that's got the old stair-step breakaway comp plan. And him and I were talking and I was doing some coaching with him, and he said "What do you think I'm going to run into for troubles here?"

And I said, "Well, you're a tremendous trainer. Man, I've heard you. I've seen you. You're "it"! You've got the "it". You can just make it happen. You're pretty cool." And I said, "The problem is you're really good and a lot of other people in your same company are going to gravitate towards your training."

He said, "Oh yeah, we're going to open it to everybody."

I said, "Don't do it. Keep it for your group only."

He said, "Well, why?"

I said, "Because you're going to have these people making more money and the upline is going to be mad at you."

He said, "Michael, you absolutely make no sense to me. This makes no sense."

And he was done with the conversation, Richard. This was a year ago. The guy called me back a year later; in December, he called me back. He said, "Michael, do you have a crystal ball?"

I said, "Yup."

He said, "How did you know it?"

I said, "What?"

He said, "I've gotten emails from the uplines in other sidelines complaining to me about me coaching and helping their people. They told me 'Leave our people alone'!" He called me the day that the company called him complaining that the other people were complaining.

Richard, this is insane. Now you've got to think, "Well, why in the heck would they be all mad?" Why they are mad is these people had built it and they were retired, and they had $x amount of money coming in. Now when this guy helped those people make more money, they broke away from those people and their checks went down. They were mad because their checks went down. Well "yeah!"

But Richard, doesn't the compensation plan drive that behavior?

Richard Dennis: Sure.

Michael Dlouhy: Well, there's nothing you can do about that, Richard. There's nothing you can do about it, it's just the way it is.

Now let me ask you a question, Richard. If you were that Yellow personality, that loving, caring, giving, nurturing person, and you're nurturing and you're helping those people; and they start breaking away from you? How are you going to react to that one?

Richard Dennis: Well, me, I'm going to be a lot less nurturing.

Michael Dlouhy: Gonna be a lot less nurturing.

How about this behavior? How about the behavior of Spill-Over.

Richard, every time when I see an email or somebody's pitching a deal and they start talking about spill-over, I start laughing and I have to mute my phone out; because I know they're looking for welfare-minded people.

Richard Dennis: You must do a lot of laughing because there are plenty of them to talk about it.

Michael Dlouhy: Richard, it's hilarious. In other words, they say, "Well, you know we don't guarantee any spill-over but you know it's going to happen. And you know we've got the superstar space commander guru leader star trek level 3 in the upline and this is a company-sponsored spill-over machine. And you're going to be rich!"

Really? Hmm.

What happens, Richard, you get one little line down and it goes outside the pay line, it's building down there, building down there; and guess what, the company is making a ton of money on the breakage because they aren't having to pay anybody.

I got a buddy of mine that had about 13,000 or 14,000 people in something like that, and he didn't make enough money to qualify to pay for his products.

Richard Dennis: OK, I got lost in that Michael. Explain that one, how the line goes outside?

Michael Dlouhy: Yes. In other words, let's say it pays down 5 or 7 levels, but its one straight line going down. Well, you don't have any other volume in any other legs and you can't qualify for commissions unless you got 2 or 3 legs going.

Richard Dennis: OK.

Michael Dlouhy: You see?

Richard Dennis: Sure.

Michael Dlouhy: So all those sales are going in, but who is the company paying? Uh, nobody. Nobody.

How about this thing about business models driving the behavior? How about this one?

If you're in a binary, here's the behavior. They tell you, your sponsors say, "Richard, man, don't you have a daughter, maybe a corporation or something? You get in here and then put your daughter and these other people, you know—put some positions in here and qualify them, so that down the road later … now you can't just transfer that position unless it's doing volume."

So you've got to qualify those positions every month, Richard. So you put your wife in, your corporation and your dead cat, and your ex-trust that you forgot about and all that, and you're qualifying all those spots. And now down the road you've got a lot of volume happening, man. Boy that power leg is growing, and all of a sudden you've got a power leg that has $50,000, $100,000, $1,000,000 in volume.

So now you say, "Hey, hey, hey Michael! Buddy, buddy, buddy, hey buddy old pal; how'd you like a sweetheart deal? Sweetheart deal, right here. Why don't we transfer this position in your name? Wow, what a deal! You've already got a leg built man." See, that compensation plan drives the behavior of a deal.

I got a call the other day, I was talking with a gentleman. He's out of the country. And he tells me he just joined this company.

I said, "What kind of deal did you get?"

And it was dead silent. Dead silent.

And he said, "What do you mean?"

And I said, "Well I know you got a deal. It's a binary. You got to get a deal. Everybody gets a deal in a binary."

And he said, "um" … He gave me his website, and he's bragging to me. You see he gave me the website, he guides me through the website. I still have his username and password, it's up here on a sticky note, I'm looking at it right now.

And he tells me, "I got 286 people in my strong leg."

And I said, "When did you join?"

He said, "Yesterday." He said, "I did good."

I said, "You did." I said, "Why did you end up in this person's upline?"

He said, "What do you mean?"

I said, "Well, you've only got 286 people. I'll guarantee you that you could have got a spot with 5,000 people underneath it. Just go farther up the food chain. If these people gave you a deal, there's somebody upline that will give you a deal."

See that pay plan drives the behavior of deal making. Now some companies, and I need to clarify this, some companies will not let you sell a position, transfer a position and all that kind of stuff. So not all of them are that way.

But the point I want to make is the business model drives the behavior in the field. Now if there is deal-making going on, Richard, will that ever work? Because you know what, this guy that was such a nice guy that was telling me that he got all these people, don't you think that's going to get back to somebody that he got a deal and he didn't build that?

Richard Dennis: Yeah, eventually and probably sooner rather than later, all trust is out the door, out the window.

Michael Dlouhy: Richard I love what you said, "All trust".

I got a phone call back here about 6 months ago from the owner of a network marketing company; and he was calling me because he wanted to get me in the deal. Richard, he wanted me so bad he just couldn't stand himself. And he told me, he said, "Well you know we've got So-and-So over here."

And I said, "Yeah, I know So-and-So."

He said, "I've got a spot above him, and he's really rockin' this thing. He's traveling the globe building this thing."

I said, "Wow! That's good. That's good."

And he said, "We really want you over here Michael. I've got a spot right here, Man, we can just leverage you right in."

I said, "Well, what's your really cool guy going to say about it?"

He said, "Well our back office won't let you look upline, so he'll never know."

I said, "Really, I've got his home phone number, I'll call him and tell him."

Yeah. And I think that guy started to sweat. He was the owner of the company.

See, the point is, Richard … How long have you been married now Richard?

Richard Dennis: Gosh. 33 years.

Michael Dlouhy: 33. I've been married 35, OK? And there's a reason that I've been married 35 years and you've been married 33. You don't lie to your wife and you don't cheat on your wife. Plain and simple. You don't lie to your children and you don't lie to business partners, and you cannot have deal-making going on. The business model will drive the behavior. If you're cheating on your wife, it's going to catch up with you and you're going to end up in a divorce. Plain and simple.

Same thing with network marketing companies. Same thing. So there cannot be deal making going on. There cannot be! There cannot be deal making going on.

Now let me ask you a question, Richard? If the owner of a network marketing company, now this is the guy that starts ii, if he's calling up me, offering me a deal, do you think possibly there's a chance that the people in the downline are doing the same thing?

Richard Dennis: Yeah. No doubt.

Michael Dlouhy: Richard, the Chinese have an amazing saying, and the saying is "That the fish rots from the head." The head of the fish is bad, the fish is bad. Same thing with network marketing companies. You cannot have deals.

So if you go back and you look over this, you look at the product companies that we talked about—the business model drives the behavior in the field. If it drives the behavior of recruiting rather than retailing, is it better to get 4%, 5%, 6%, 7% of the wholesale? Is it better to get 40% of the retail price when you've got value-priced products? Think about that for a second. Just let that one sink in.

When you go to service companies, don't ever get into a service company that's a "churn and burn". Don't do it, don't do it, don't do it! Because you are not going to have success. In that service company I shared with you Richard, (you won't even believe this) I did a search on their website back here about a year-and-a-half ago; and I found they had a disclosure page where they would tell you how many people got a check after 13 months in the business. And if you built a group of 100 people, Richard, in a year, what would you think would be a satisfactory amount of people who should qualify for a check out of 100 people in a year? The 13th month, how many of those people should get a check?

Richard Dennis: Well, from my experience, I'd be thrilled if 30 of them did.

Michael Dlouhy: 30?

Richard Dennis: Yeah.

Michael Dlouhy: This website used to say ".57%", and since I pointed that out and started talking about it, and it got back to the company—they took that off of the website and they put some different stuff up there.

Richard Dennis: I can't believe they had it up there.

Michal Dlouhy: Richard, I saw it and I copied it and pasted it and I saved it on my computer.

Richard Dennis: What idiot put that up there, huh?

Michael Dlouhy: Well, they had to tell the truth, I guess? Something to do with "Fair Trade Act" and all that sort of stuff. But they tweeked it up and changed it.

So if you're in a "churn and burn", run, run, run, run!

Understand your compensation plan. I don't care what company you're in. I don't care what comp plan you've got. You want to look and see what behavior the plan is driving. Is it recruiting or retailing or both, and how many people do you need? How complicated is this, Richard, how many people do you need in your pay plan to make $10,000 a month?

And I had a lady tell me, she said, "I only need $5,000."

And I said, "Good, cut the number in half."

If you want $20,000, double it.

But Richard, I want to leave you with this as we are at the top of the hour: Companies with high overhead always have long policies and procedures that you need a lawyer to read because the company may need to steal your bonus check to pay their overhead. And I know they stole your check of over $40,000 a month. Mm, Mm, Mm! I could have went all night and never said that to you, but I had to.

(laughter)

Richard Dennis: It's only money Michael.

Michael Dlouhy: It's only money. What the heck, it's only $40,000 a month.

But Richard, I really truly hope that we have been able to paint a picture to give enough word pictures here tonight so that people could get a hold of this and understand clearly the difference between an illegal pyramid scheme and a legitimate company; and I will close with this, Richard:

If any company, if you can't pay for it on a website with a credit card, and you're sending a money order to an upline? Run, run, run, run! Think about this for a second, Richard, the brilliance of that from the company. If the company comes under attack, they didn't get the $2,250, they got the $250, didn't they?

Richard Dennis: Yes.

Michael Dlouhy: The beautiful thing about that is these companies are going to turn in the people that got the $2,000, Richard and let the government put those people in prison. Think of the brilliance. They don't have to send a 1099 Richard. The company could get away with not even sending a 1099 because they didn't actually technically pay out any income, did they?

Richard Dennis: No, they didn't.

Michael Dlouhy: Wow! And if we can stop those good hard-working people from losing money in those kind of scam deals, Richard, I'll tell you what—this call was worth it my friend. It was worth it!

Richard Dennis: Yeah, and you know you've covered so much tonight and so many different points, but let's go back to that one that you've come back to several times, the big policies and procedures. I'm telling you Guys, if there's one thing you take away from this call … if you see a company with policies and procedures really more than 10 or 12 pages, take a close look at that company. If it gets up to 25, 30, 50, 100 pages, just go someplace else.

The reason that all that wording is in there is to wear you out. It will wear you out. And some place in there is hidden some stuff that they don't want you to see.

Michael Dlouhy: And they always put the bad stuff, Richard, on the last 10 pages anyway.

Richard Dennis: Right.

Michael Dlouhy: So start in the back and read forward.

Richard Dennis: Yeah, the chances are good they can take your check, or if they can make it so bad for you that it's not worth you continuing doing the business anyway. There are so many different things they can do. And the longer those P&P's are, the more chance there is they are doing it ; because they are written by lawyers and that's what lawyers do, is they try to protect their client. They try to do what is in the best interest of their client, and that is not you as their client, and it's not in your best interests.

Michael Dlouhy: Yes sir. Well, Richard, I've just really enjoyed this call. I've been looking forward to this call to get this information out there.

At the half hour here (we are at the top of the hour now), but in a half hour, 10:30 p.m. EST, we are going to be doing the Mastermind Coaches Corner Call. We've done this Coaches Corner Call for about 7 or 8 years now. It's an amazing call. It is an interactive call. I highly recommend you guys get on the call, listen in.

Richard, I'll turn it back over to you my friend.

Richard Dennis: Michael, thanks very much for your expertise this evening. We appreciate everybody for being on the call tonight, and we'll talk to you on the next call. Good night.

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