

Compensation Plans
Mentoring for Free
Richard Dennis interview Michael Dlouhy

Michael Dlouhy: Ok, Ladies and Gentleman, we're at the top of the hour. I want to thank you guys for getting on the call here tonight. Hopefully, we're going to give you some information here that will get you some "ah-hah moments", maybe some "oh no" moments. Maybe you're going to have a flat spot on your forehead for hitting yourself in the forehead with the palm of your hand; because maybe tonight you can finally figure out these compensation plans.

This call is Mentoring for Free and it's our Compensation Plan Call, and it is my privilege to introduce my good friend and business partner in Mentoring for Free, Richard Dennis.

Now Richard is very well known in the Industry for creating phenomenal marketing pieces. They did a tape called ***Dead Doctors Don't Lie***, in which 250 million of those tapes were sold and sent around the world. And that is definitely a marketing campaign that all others judge themselves by.

So Richard has done a lot with mail order, and I would like to turn the call over to him. I don't know what he is going to ask me but he is going to interview me about compensation plans. So, Richard ...

Richard Dennis: Thank you very much Michael.

You know, when I'm talking with people, I run into two extremes and I'm sure you do too. There are people who spend hours a week and some of them hours a day, trying to figure out their compensation plan or the plan of some company they are thinking about joining.

And it astonishes me how much time they'll spend and the detail they'll go into. It just blows me away. And I guess it tells you a lot about this Industry that you need to do that differently with every company. So from one to another, it's not the same.

And then the other extreme is somebody who says, "My sponsor is making money it must be ok."

Michael Dlouhy: Yeah. I always love that. I'll get a call from somebody, "Well you know our superstar space commander is making \$10,000 a minute."

“Well good, how’s that working for you Buddy?”

Richard Dennis: Yeah.

Michael Dlouhy: That’s what I want to know. What are average people making? Don’t tell me about the guy making \$100,000 a day. Tell me about the average part-time person. Tell me what kind of money they are making. That’s what I want to learn, that’s what I want to talk about.

Richard Dennis: Well, I guess it depends whether inside you want to understand it or not; and of course, you can find a reason to justify whatever you do.

What I wanted to know was, you’ve been in this business a long time, and I’ve heard a rumor that you are one of those Blue personalities that doesn’t really care about the details all that much; so my question for you is, what experiences did you have early on in this business that really caused you to look closely at compensation plans?

Michael Dlouhy: Well, Richard, it amazed me. I would look and see that certain people are making money and most of the people aren’t making money. So my mentor told me, he said, “You know Michael, you’ve got to be more analytical. You’ve got to analyze things a little bit more. Start figuring these things out.”

So you know when I would see somebody making a whole lot of money, or here’s what is was Richard—they’d say they were making a whole lot of money. You know back in the days, Richard, in the stair-step breakaway plans, you could buy your way in? Let’s say you bought a \$5,000 product pack of water filters or something, and you bought your way up to the 50% level, and they send you a commission check for \$2,500. So you just made a \$2,500 check. “Well, I was in one day and made \$2,500.”

Well, yeah, you bought your way to the top of the breakaway plan, and then you bought a \$5,000 pack of filters and you got a \$2,500 check.”

So you know you’ve got to look at that and say, “Wait a minute, how did that happen?”

And with good reason, you know the Federal Government stepped in and said you cannot show a check. And I’m going to tell you guys something, if you have a company and distributors that

are flashing checks or showing checks, I can promise you, you will be shut down. In time, you will be shut down.

And Richard, I was stunned and amazed; somebody showed me a company event where they had big checks, they were like 6-feet long and 2-feet high on cardboard.

Richard Dennis: I've been at those events. I've seen those. Yeah.

Michael Dlouhy: You've seen those.

Richard Dennis. Oh yeah.

Michael Dlouhy: That is 100% illegal, and the owners of the companies are standing here handing these checks out like that. See that's called enticement. So what they want to do, they've got a couple of people that they move downlines underneath them and do all kinds of stuff to generate a huge check so they can show, "Look at us, we've got somebody making a big check."

The problem is, Richard, that 99.7% of the people don't make money in those plans. Hmm? Isn't that amazing? They don't make money because it's stacked for the big guys.

So truly I had to get more analytical to figure these things out. So once you start looking at, I was figuring out how these people were doing this; and that's when I found out about all the deal making going on. And that's the reality of it.

Richard Dennis: Obviously you reached a lot of conclusions as you were looking through all of these different kinds of plans. What did you finally decide as far as the best compensation plan? What did you come up with?

Michael Dlouhy: Absolutely, without a doubt, Richard, the best compensation plan is the compensation plan that you make the most money with the smallest amount of people.

Now understand something. I said that to a guy and he laughed and he laughed and he said, "Well, I only need one person."

I said, "What do you mean?"

He said, "Well, I sell a deal that's \$12,500. I give the company \$2,500, I keep \$10,000, so I only need one person."

That's not what I'm talking about. I'm talking about building a downline, building an organization. I don't care if it's a 2-by-binary, if it's a 5-by-matrix, if it's a unilevel, if it's a stair-step plan, if it's an Aussie two-up; any kind of plan. When you build an organization, (it's called a downline) you want to look at that and you want to look and see how many people you need in the plan to make your desired income.

Now what I always use, Richard, is I just flat use a number of \$10,000 a month of desired income. I talked to a lady in Stockholm, Sweden and she told me, she said, "Well \$10,000 is too much, I only want \$5,000 a month."

I said, "OK, once we come up with the number in your company, we'll just divide that in half." It's simple. Once you know per distributor what you're going to make, then you know how big you've got to build it.

Like with some affiliate programs, I wouldn't really classify those as network marketing, you never really make any money in them. But a lot of times in affiliate programs, you'll need 20,000, 30,000 people, 40,000 to make a couple hundred bucks a month, you know? Because they are just designed not to pay you. It's just the way they are designed. There are some plans, these affiliate-type programs, that you might make \$.50 a person. So if you wanted to make \$10,000 a month, you'd need 20,000 people.

So, my answer, Richard, the best compensation plan out there is the one that pays you the most money with the least amount of people. Again, we're not talking a huge front-end load, I'm talking something that you build that every month people will buy a product or buy a service and pay for it and you receive that residual, walk-away, hang-up-the-six-shooters retirement income from the pay plan.

So, I think, Richard, you would be shocked and amazed. It's like a company out there, they are publically traded, they are very well known; they have an old, old, old-style binary compensation plan. Now a binary, Richard, is a two-legged plan. In other words, one left, one right. And there's actually one company out there that has a binary that the owner of the company and their top distributors are saying it's not a binary. Well, Richard, you know what, if it's got two legs, it's a binary. Real simple. And so this old publically traded network marketing, to make \$10,000 a month in that pay plan, you need 3,500 people. 3,500 people, OK.

Now some of the newer binary compensation plans, they added things like check match. They added some other little bells and whistles and spins and twists and things like that, and most of those plans you need about 2,100 to 2,400 people. So, Gosh, that's at least 1,100 less people in a new-style binary than an old style binary. So if you happen to be in the old company, and you're competing with somebody in a newer company with a new-generation style plan, just know this, you've got to build a bigger group. A bigger group.

And let me give you an idea on how to figure that. OK? Let's just take something very basic and very simple. Let's look at a matrix, a 5x7 matrix, that would be 5 people on your front line paying down 7 levels, so 5x7. Ok. Let's say it pays 2%, 4%, 9%, 3%, all the different percentages in all these different levels. Add it up and divide it by 7, because it's 7 total. And let's say you get an average of 7%. Most of them are about 5%-6%, but let's say it's 7%. Let's say it's 7%. OK, if you've got somebody buying \$50 and you're going to make 7%, you make \$3.50 for each one of those spots in your matrix, OK? So that would mean if you want to make \$10,000 a month, you divide \$10,000 by \$3.50. That would come up to, I believe, (I don't have a calculator here in front of me) 2,856 people. So in that scenario, you need 2,856 people in your group in order to make that kind of money.

Now, what's the problem? Richard, every pay plan, every compensation plan has got strengths, but every one of them has weaknesses. What would be the weaknesses in a matrix style plan be?

Richard Dennis: After some period of time, most of your people are going to be below your pay levels.

Michael Dlouhy: There's no question about that, but here's the biggest problem.

So, if you are in any kind of a matrix, and a matrix is a fixed number of front line people, here's the problem with a matrix. And this is a huge, huge, huge problem. Matter of fact, I was in a matrix, and this happened to me. And the upline knew that I was a builder so that person put a slug on my front line. Guess who the slug was?

Richard Dennis: Relative?

Michael Dlouhy: His mother-in-law. Yup, you got it.

This was a 3-by-matrix. So this person, unbeknownst to me, sponsored ...

Richard Dennis: But wait a minute, you've got spillover, Michael. You should be thrilled!

Michael Dlouhy: Oh, I should be thrilled, huh? Well, you just put a slug on my front line that I have to build under because I can't go wider than 3. Oh boy, is this a problem? Yes, it is a problem. It's a huge problem.

Matter of fact, I contacted the company and I said, "Remove that person. I don't not want that person on my front line, because I know the upline was expecting me to build his mother-in-law a check", and I wasn't going to do it.

Now he put her there, but he never put anyone else underneath her. He wanted me to do it.

And this is how they'll make you build those, Richard. Let's say for you to make (and we'll keep it real simple), let's say you've got a 3x7 matrix. And for you to make your leadership bonus, you've got to have \$30,000 of volume. You cannot have \$30,000 of volume, Richard, from one leg. It has to be equal between 3 legs. So let's say I sponsored two builders on position 1 and position 2, and then my dirt bag upline puts a slug on my front line. I've got to build under the slug enough to get my volume up to get the superstar space commander bonus, or maybe the car bonus, or maybe the leadership bonus, or maybe the lifestyle bonus, or the house bonus, or the vacation bonus or whatever the bonus they've put there. Now I've got to go build under the slug.

So, when you see a website that says "spillover" on it, run the other direction or get those people to take that off the website. Because what happens, you look for welfare-minded people. Richard, do you think the mother-in-law was some kind of happy when she found out she was on my front line? Huh?

Richard Dennis: (laughter) That was a good-news day for her, yeah.

Michael Dlouhy: That was a very good-news day; and basically I told the company either move her or I will resign from the company, because I'm not going to build under a slug. See, on a matrix, Richard, those front line positions are absolutely gold. They are gold. You save those front line spots for workers, builders, somebody that you want to team up with, somebody that you want to go on a one-month vacation with. I mean, I didn't even like this guy's mother-in-law; I darn sure wasn't going to want to go on a vacation with this person. But that would force me to make this person a ton of money that I didn't like. Can you see this could be a problem?

I don't care if it's a 3x5 or a 4x7 or a 5x7 or a 6x4, whatever the matrix is Guys, if you are in a matrix plan, contact your upline and tell them never, ever, ever, don't-you-ever put anybody on my front line until I have interviewed them, I have checked with them, I have made sure that they are serious about building; because you will be stuck and hung out to dry. Hung out to dry.

Richard Dennis: That's a great story, Michael.

Let's go back a little bit here. We are talking about the best compensation plan, and you said it's the plan where you can get the most income with the fewest people. That implies a couple of things. One thing it implies, that if you're getting more income with fewer people, that those people are ordering more product.

Michael Dlouhy: Yes.

Richard Dennis. ... Which I think is interesting. There could be a few reasons for that, but one reason is they've got good products. There is a good chance that's a good situation. The other thing I see is that people are ordering more product, also you have more people in your group, a higher percentage of people in that group ordering product, which is also likely to be a good indicator. To me, not only are you in a better position as far as you're concerned with the compensation plan with having more income with fewer people, but it also indicates maybe it's a healthier company too.

Michael Dlouhy: Well, here's the thing, Richard. OK. The more people you need in your pay plan, the less retailing is going on. In other words, when you're in a situation, if you're in any company, I don't care what the company is, and if it's always talking about recruit, recruit, recruit, recruit, recruit ... and they never talk about retailing product, run, run, run! Run! It will never work, because here's why, Richard. When you have to get into a retailing situation, does it make sense to make 7% of the wholesale price, or does it make more sense to make 40% of the retail price? Where do you need more people? At the 7%.

Richard Dennis: Right.

Michael Dlouhy. Yeah. Yeah. Gosh, guys, this is not rocket science. We are not talking about something hard to figure out here. We are talking literally a calculator and in about 5 minutes, you can figure this stuff out.

So if you're in an environment that is about recruit, recruit, recruit, recruit, recruit; I can promise you, you're in a company that you need a lot of bodies in the deal. If it's more about retailing, retailing, selling product, moving product to the actual real true end-consumer, you need a smaller downline. Because it takes less people to move more product when you have value prices and people are actually retailing something. It's amazing!

I will give you an example, Richard. I do coaching with a lot of people in a lot of different network marketing companies, and they are perfectly content doing their deal. But guess what, they buy products from me and they love them. But they are doing something else and they don't want to build the business, they just buy my products. I'm OK with that.

I probably buy products from, oh I don't know, 6 or 7 different network marketing companies. Why? Because network marketing companies have got great products! Most of them.

And some of them are too expensive, but you know what, Richard, this will blow your mind. I have bought a shampoo from one company for over 20 years. Richard, I wouldn't build the business if the owner of the company called me up and begged me and gave me a deal and part of the company. I wouldn't do it, because it's an old archaic compensation plan with idiots running the company. They don't even know how to spell "MLM". They don't even know how to spell it, Richard. Distributors can't make any money there. They can't retire from that company, Richard.

I talked to a gentleman, oh about 3 weeks ago. This is the kind of stories, you see this is what happens to me, Richard, and that's why I get so mad. I get so infuriated! This guy worked for this company for 13 years. It's the one I get the shampoo from. This guy got ill. He got ill; he had surgery. He did not sponsor anybody for a month. Well, he didn't know, but about 4 years ago, they changed the policies and procedures, Richard. For him to get his big bonus check, he's got to sponsor 4 people a month. Well, he didn't even know when he was in the hospital having his surgery that his check was in jeopardy because he got his check. But what it is, they have a 30-day grace period. You get a one-time 30-day grace period. The next 30 days, if you don't sponsor your people, you don't get a check. His check went from over \$13,000 to under \$300, Richard Dennis. That's in the pay plan, Man, that is in the pay plan.

Well, while I'm talking about that, let me give you another one. There's another company. You have to have one retail sale a month. This guy has been there 9 years. 9 years. You're going to love this one, Richard. They have a sponsoring requirement, 1 retail sale a month until 10 years. After 10 years, they call you "vested with the company" so you don't have to sponsor anymore. The company is publically traded and they need money. They are always stealing money from the distributors. So what they did with this guy, he had two distributors that died

last year in 2006 and he had one person that their credit card was stolen. So in a matter of a couple of months, he had 3 pieces of business fall off the books.

So in December he got a letter that said, "We're thinking about putting you on 'as-earned' because you have low persistency."

Richard Dennis: Oh no.

Michael Dlouhy: Yeah. This was in the middle of December, right? Well, near the end of the month, around the 20th or something, they sent someone to go sign up so they could have their sale for the month, right? The company shut his website off. And they said, "Well, we're investigating here, you've got low persistency so we're not going to let you sell any retail sales until we figure out what to do with you here."

Well, the policy says that if you don't have a retail sale, you don't get a check. His check was almost \$20,000, Richard. His check was almost \$20,000.

Guess what, they didn't pay him in January because he didn't have a sale. He didn't have a leg to stand on. Needless to say, the guy is looking for a company now. Isn't that amazing?

Richard Dennis: What a deal!

Michael Dlouhy: Isn't that amazing? But that's in the compensation plan. So Gosh! Gee-willakers! Richard, do you think you ought to read that stuff and understand these compensation plans maybe a little bit better?

Hmm. Wow! It's amazing, absolutely amazing.

That same gentleman, he's looking at a company, another publically-traded company. They talked about termination like 20-some times, and ongoing sales (I don't remember) 7, 8, 9 times, something like that. It's the same stuff. I mean, the guy's jumping out of the frying pan and into the fire. But you know what, one day they get enough knots on their head, they wake up and they smell the decaf.

So, my question to everybody on this call, should you understand your compensation plan? Should you understand that you've got a sponsoring requirement? Should you understand you have ongoing sales requirements in your pay plan?

So, the one word, if you joined this call to hear the one word that we advertised about this call that you want to learn, and that is “spillover”. Spillover. That’s one word, right? Spillover?

Richard Dennis: Yup.

Michael Dlouhy: One word, no hyphen in there. Spillover.

If you are in an opportunity and they are talking about spillover, get a hold of the owners of the company and tell them what idiots they are and tell them to get that off the website. Because could you imagine a slug spilled over onto your front line and then you’ve got to build under the slug, Richard? I don’t want nobody spillin’ over. I don’t want any of the spilledover stuff in my organization. I want real people that really want to build the business. I’m not looking for somebody with a welfare mentality that’s wanting me to build them a check. So, I guess if you are welfare mentality, then you want to be in that pay plan. That was simple enough, I guess we just answered that.

Richard Dennis: Yeah, I think you can probably, if you talk to all the people in the world who’ve gotten spillover, (which probably isn’t a lot of people) you’ll find that most of the spillover ... I doubt too much that heavy hitters get spilledover very much.

Michael Dlouhy: No, no, no! No, they get the sweetheart deal at the top of the deal.

Right, there’s no heavy hitter going to spillover in your organization.

Oh, and I love the one, Richard, “Oh! Billy Bob Smith, he came out of retirement for this one. Oh my gosh, he’s built so big and now he came out of retirement!”

Huh? I didn’t know you could retire from network marketing, Richard. Don’t you do it all the time anyway? All you can do is stop picking up the check? What that tells me is they weren’t getting a checks anymore. Huh? What does that mean to you?

Boy, that was good information about that matrix plan, isn’t it?

Richard Dennis: Yeah.

Michael Dlouhy: Huh?

Richard Dennis: You remind me, the first one I heard coming out of retirement was probably about 1980 or so. So, that's been going on a long time.

Michael Dlouhy: They've been coming out of retirement a long time, and it's always somebody—I've never heard of them before, and they say, "Oh you have heard of them?" No. No, never heard of them. It's always somebody you've never heard of. But they are a heavy hitter.

And I guess what it is, Richard, they must weigh 700 or 800 pounds or something. I've never really seen one of those heavy hitters, but that's what I hear anyway. It's just a rumor. You know, they are really heavy, really big, really heavy.

So, if you you're looking for one of them to spillover into your organization, it's never going to happen. Never going to happen.

So, compensation plans drive the behavior in the field. Hmm? Just like the business model itself. So, if you're in a matrix, it's going to drive the behavior of you having "spillover" on your website. If you've got it, get rid of it. It will never, ever work. It will never work.

They do the same thing, Richard, in a unilevel plan. And you brought up the point earlier. What happens is your volume gets outside the bottom of your matrix. Or, in a unilevel, most unilevel plans go wide, so you could go wider than 4 or 5 or 7 or 9 or 11 or 20; but you only get paid down 4 levels. It's 4 levels. Is there any advantage to you building deep in an organization in that type of pay plan?

Richard Dennis: No.

Michael Dlouhy: Never going to happen. See, nobody is going to work down deep in an organization if you're only getting paid down 4 levels. So, what behavior does that plan drive in the real world? It drives the behavior of going wide, wide, wide, wide.

Business model drives the behavior with a stair-step breakaway compensation plan. Richard, let me explain to the listeners a stair-step breakaway plan so everybody totally understands the plan. Hopefully, you understand the matrix, the matrix is any fixed-width and a fixed-depth pay plan.

Any unilevel plan is a plan that goes wide, it pays shallow in depth.

Any binary plan, binary simply means 2. If you were in a company that has a left leg and a right leg, you are in a binary, end of story. I don't care what the idiot owner of the company is telling it is, if it's a brand new something plan; trust me, it's a binary. Two legs.

Now let's explain a stair-step breakaway compensation plan. The best way to explain it would be to explain it from the insurance industry, because that is where those plans originated. Ok. Let's say I am at the top of the pay plan and I'm a life insurance agent; and I go sell you, Richard, a life insurance policy. The company pays out a total of \$500 on that business. OK? I'm at the top of the pay plan, how much do I get? \$500.

And then Richard, down the road, he says, "Gosh, I'd like to be an agent also" (or an affiliate or a distributor). So, you join. You go make your first sale. How much money does Richard make? Richard makes \$100, the company pays \$500, you make \$100, I make \$400. You're in the first step of the stair-step.

Now you get your volume up, volume up, and you make a sale; the company pays \$500, you get \$200, Michael gets \$300.

You work and get your volume up, you sell a product. They pay \$500, you get \$300, I get \$200. Richard gets his volume up, he makes a sale. They pay the \$500, you get \$400, I get \$100.

Now, you work, Richard, and get your volume up. All of a sudden you make a sale, you make \$500, I make \$0. You breakaway from me.

Now, here's what they say. There are plans today, Richard, (and this will blow your mind) that you 100% breakaway from me. But there are some plans that say, "Well, Michael if you'd get 3 more front-line Richards', we'll pay you 2% of Richard's entire organization. How about that? Because we like you so much."

Now again, what behavior does that drive? Do you think I ever want Richard to get up to that level 5?

Richard Dennis: There's no training going on, that's for sure.

Michael Dlouhy: There ain't no training going on. I'm never going to return your phone call. I'm never going to talk to you again once I got you signed up because I want you to keep making those \$500 sales—you get \$100, I get \$400.

There's never going to be training going on because they don't want you to do better, because you're going to end up losing them if they do better. OK?

Now, here's where you can buy your way to the top of a stair-step. Hmm? Let's say for everyone of those \$500 sales, let's say that was \$500 worth of water filters. Well, if you bought \$500 worth, that would be step 1. But if you bought \$1,000, that would be step 2 in the volume. But if you bought \$1,500, you'd be at the third stair-step. How about if you bought \$2,000 worth of water filters, you'd be at the 4th step. How about Richard, if you could just buy \$2,500 worth of water filters at the first step, first bat out of the box you made all that sales volume (you created it because you bought your way to the top), and now you're at step 5, and I don't get any overage.

Richard Dennis: That's a bunch of water filters.

(laughter)

Michael Dlouhy: Man, you've got a whole boat load of water filters.

That's how those plans work; that's how you can buy your way to the top. The thing that just infuriates me, Richard, about those types of plans; Let's say I sponsor you into the business and I say, "Richard, whoo, man, you know you're at the \$100 level, but man I want you to get at that \$500 level because you're just an awesome guy. You're an awesome guy. Man, you are awesome!

Next month, here, you've got more room on your credit card. Man, get \$1,000 worth of product, buy a \$1,000 worth of product and you'll be at stair-step 2. "

So, you put \$1,000 on your credit card. It's called "buying your way to the top of the pay plan". Whenever an upline is trying to convince you to buy more product to qualify for a level in the pay plan, run the other way. Run the other way! Because what happens, Richard, can you see this? You get to the top of the pay plan, but you haven't built a downline. You bought your way to the top. You haven't sponsored one person. Do you see how that works? You're at the top of the plan, "Oh Boy!" Now you go sponsor somebody, and you do sponsor somebody, you're at the top of the pay plan, but you haven't built any residual money from nothing, because you bought all the product.

There in lies the problem with the stair-step breakaway plan.

Richard, guess what personality does the best with a stair-step plan?

Richard Dennis: Oh that sounds like it's probably a Red.

Michael Dlouhy: Hammered. They are the sponsor monsters. They are the ones that are waiving the huge checks.

You know, going back, Richard (because I'm talking water filters and I don't think there's any water filter companies anymore), but this one guy that I know, instead of selling those \$5,000 packs, this guy was selling \$30,000 packs. \$30,000!

Richard Dennis: Now that has to be a Red doing that.

Michael Dlouhy: And he'd get them to buy in and he was getting like \$15,000 off of these things. I mean, my gosh, the guy made like \$80,000-\$90,000 one month. And he had no problem just stacking the garage full of water filters for those people.

Everybody said, "Oh there's been more income, biggest incomes made from a stair-step plan" ... Well, yeah??? That's how they did it. The bunch of people maxing out credit cards filling up their garages and closets with stuff.

Nobody needs that much skincare, Richard. Nobody does. And nobody can sell that many water filters. It's front-end loading. That's why, (thank the Good Lord) that we've got a government that regulates people that will put their life savings, and they've got a whole garage full of skincare that is going to rot and melt and turn into gook, so it's not going to be any good—so they threw away \$30,000.

But boy, I tell you what, somebody is waiving a big check aren't they, Richard?

Hmm?

So, understand the business model drives the behavior in the field. When you look at any pay plan, look and see what behavior. If it's again, I'm going to say this again, if you're in a pay plan where it's about recruiting people, run the other way!

The only pay plan we haven't talked about so far, Richard, would be the Aussie Two-Up. People are saying, "What the heck is that?" It's called an Australian Two-Up. And I don't know, I've got to look at research on this, maybe somebody in Australia came up with it; but your first 2 sales, Richard, go to your upline, OK?

How is that settling for you? If average standard people that never have a system, sponsor 2.7 people, and you've got to give 2 of your sales away? Will that ever work?

Richard Dennis: Not with normal numbers, no.

Michael Dlouhy: No, no, no!

So, now you are looking at anybody that's going to make that plan work is the top .01% of the population. 99.9% of the people cannot build that program. And there's a company out there right now; they are talking about, "Yeah, well you know we are the top, the upper crust, we're the best of the best of the best of the best!"

Really? Hmm?

Is that duplicatable?

So, anything you are looking at in a compensation plan in any network marketing company, all you've got to do is look at it and see, "Is this duplicatable?"

Richard Dennis: You know on that Aussie two-up, Michael. I spent some time one day talking with a fella who was involved in one, and the thinking process was pretty interesting. He was very aware that he was (what polite term can we use here?) being taking advantage of. And his goal in life was to get into that position of the person who was taking advantage, so he could turn the tables.

Michael Dlouhy: Turn and take advantage of the other people.

Richard Dennis: Right, exactly.

Michael Dlouhy: Yeah.

Richard Dennis: You can look and see how that person who is getting all the people pushed up to them, they are making out very well.

Michael Dlouhy: Yup.

Richard Dennis: And I think that's probably why the pay plan appeals to a lot of people because they think, "Oh man, I'm going to work, work, work and I'm going to get in that position where I'm taking advantage of all these people."

Michael Dlouhy: Mm hm.

Richard Denis: Anyway, it was amusing to me to see how the mind was working there.

Michael Dlouhy: And you know, Richard, the Aussie two-up, I won't say 100%, but 99.9% of the time, the Aussie two-up compensation plan is directly related 100% to an illegal pyramid scheme; because, it's always related to a front-end load of some kind. In other words, it's a one-time sale. There's never residual money. The only place the residual money comes from is from recruiting new people.

If most of your money ... and this is very simple, Richard. This is very, very simple. When you look at compensation plans, all you have to look at is, is 95%, 90% of your money coming from recruiting new blood, or is it actually coming from product sales? That's all you've got to look at. It's really simple. How simple is this?

In other words, let's say you're in a travel program. If 90% of your income is coming from selling plane tickets, cruise tickets, vacation stay, you know p-r-o-d-u-c-t, product, product being sold, and that's where your commission is coming from, you are in a good company; it's a legal company that's going to be here to pay you.

If you get 90% of your money from recruiting other travel agents, it is an illegal pyramid scheme and it will get shut down 100%, guaranteed. Guaranteed. And the best part of that is, Richard, finally the Federal Government is catching on and they're actually putting some of the top income earners in prison along with the people that start these things.

So, just know that. It's real simple. So if you're in a pay plan where you get 90% of your money, 70%, 80% of your money from recruiting people? ... In other words, Richard, when the

recruiting stops, does the income stop? If the recruiting stops, then the income stops, you are in an illegal pyramid scheme. End of story. End of story. Simple! It's just that simple.

So most of the Aussie two-ups, Richard, are related to some kind of a one-time sale where you're selling somebody, oh information, a book, information on how to defraud the Federal Government from taxes or how to change your mother-in-law's hair color or something "101"; you know, some kind of bogus useless information, but you can get it for free on the internet.

Richard Dennis: Let's shift gears a little bit here, Michael.

Michael Dlouhy: Sure.

Richard Dennis: We've kind of touched on this a bit this evening, but if you would, go in a bit more depth. You know, one of the things that is most fascinating to me is that different personalities work best with different compensation plans, and sometimes a personality picking the wrong plan is just absolutely doomed. They have no chance of success. If you would just talk a little about that?

Michael Dlouhy: Sure, Richard, sure.

Let me give you an example. We met a beautiful lady, just an awesome lady. She was past the retired age. She had spent about close to \$50,000 trying to build 3 network marketing opportunities, one after the other after the other after the other. And of course, the next one said, "Well, the reason was that was a crappy company, let us show you a good company." She had been in 3 companies.

She was as Yellow as my wife. Just a beautiful Yellow, loving, caring, giving, beautiful lady; and she was trying to build a stair-step breakaway comp plan. Could you imagine, helping your people be successful? That's not what you do in a breakaway plan. You don't talk to your people. You sponsor them and don't ever talk to them again. You made your fast start money from them and you hope they don't ever build it too big. You go wide. You put 100, 200, 300, 400 people; wide, wide, wide, wide, wide. Go, go, go, go, go, go! Can a Yellow ever sponsor that many people? No way.

And what happens is, if they start building down deep, they've only got 1 or 2 legs going, and all of a sudden it's outside their pay line and the people break away from them if they got successful. Boom! Just took it from them.

See the Red would have more front lines going, so that when their lines start breaking away from them, that the lines keep going and they grow them in front of them, grow them in front of them, grow in front of them.

I just did some coaching with a guy, Richard, a year ago December, this last December was a year ago. And he was in a stair-step breakaway plan. He's up in Canada. And this guy is a brilliant trainer. Richard, he's really good. And the company was so thrilled that he came on board, they were going to have him traveling around doing corporate trainings. And I told him, I said, "That ain't gonna work".

He said, "Why?"

I said, "Because you're good and you're going to get these people learning some skills and building their business, and the people that have been around a long time are going to be mad at you that you're helping their people be successful, because their checks are going to shrink."

He said, "Michael, that makes absolutely no sense to me. I think you've lost your mind."

I said, "Ok."

It's a year later. He called me up in December this last year, just a couple of months ago here. He says, "Michael, do you have a crystal ball?"

I said, "Yes I do."

He said, "You know what you told me?"

And I said, "Yeah. I remember the conversation."

He said, "I've had phone calls and hateful emails from the upline sideline to me, telling me to 'leave their damn people alone; leave them alone'." He said, "Michael, they're having success, they're building their business."

And I said, "Yeah. And these people's checks are shrinking and they don't like it, because they've got to go back and build another frontline spot."

And they've complained so much so, Richard, that the company stopped him from doing trainings.

A year later, finally he got enough knots on his head, and he called me up and he said, "I want to join you in your business."

"Ok. That'll work." He's just a year farther behind now, but that's OK. Might as well start now.

Richard, the business model drives the behavior. The compensation plan drives the behavior of the business model! Huh?

So the best pay plan out there is the one that drives retailing instead of recruiting, and it takes less people to move more product. How simple is that? We could have ended the call in the first 5 minutes if we had just got that message across somehow.

Richard Dennis: You know, a lot of companies ... I'm sure a lot of people on the line tonight have been with a company that all of a sudden the compensation plan changed. What happens? What causes them to change comp plans and what happens when they do change them?

Michael Dlouhy: Normally, Richard, what happens is the company starts paying out too much money. Because the way they got these things figured ... when they put the comp plan together, let's say they are going to pay out 70%, and in reality they figure in real numbers they are only going to pay out about 20%.

So when they start paying out 40%, they freak out and realize, "Uh oh, we've got to change the comp plan!" So they will change the comp plan.

Now I'm telling you what, I've never seen a company change the comp plan where they actually gave more money to the distributors. They spin it that way, they make it sound that way, but it's never that way. The checks always go down. So, what that tells me, Richard, is your company president, the people that are running the company, they don't know what they are doing.

There's a company, Richard, oh man you don't know how bad I want to scream this company name out on this call. We've got 250 people on this call, it's a packed out call, and you don't know how bad I want to scream it out. If you call me privately, I'll tell you the company.

Nine compensation plan changes in 11 years, Richard. Nine!?! Nine changes in 11 years. And everyone of them, they took money away from the distributors. But what's so amazing about it, the company says, "Oh, well you know we've got to buy more land and we've got to expand the business, and so we need this money to do that." In the meantime, the owner of the company is divorcing this one and marrying that one and divorcing that one and marrying this one, and buying this and buying that. He's buying land all right, but he's losing it in divorces too.

And they keep doing it, Richard. And those people just keep hanging on, hanging on.

Nine compensation plans in 11 years, Richard. I know when the company started; and what was so funny is when they started, I know the company that they bought their software from. And there were 2 other companies that bought the same software program. And the other 2 companies went out of business in a couple of years because there was flaws in the software. There was flaws in the comp plan. So these guys had enough of (the third company I'm talking about now), had enough of a customer base that they had enough product sales because they had a good product and the people focused on retailing products. The other two companies focused on recruiting people. When there were problems, the people left and the companies both crushed.

The third company focused on retailing product. That was all they talked about. They did product seminars. They got all the Yellow people in there just loving the product, smearing the product all over everybody, singing Kum-by-yah, and they had a lot of product sales .

But guess what, the company is still in business today. The owner of the company has been married and divorced several times, but they are still there; because they created product sales. And people will buy that product if you took the comp plan away completely. Isn't that freaky? Hmm?

Richard Dennis: I've seen that before.

Michael Dlouhy: Yeah, yeah, yeah. It's amazing, absolutely amazing.

So, you asked the question, what's the best compensation plan out there. My answer to you, Richard, is the compensation plan that creates a behavior of retailing rather than recruiting. I mean, you are going to have some recruiting, no question. But I'm talking about the main focus needs to be on retailing, not recruiting, and it needs to be a plan where you have less people making more money. If it's about recruiting, it's always going to be the opposite way.

May I ask you a question, Richard? What pay plan out there, what's the worst plan for promoting recruiting? There's one pay plan that's the worst for recruiting. The absolute worst.

Aussie two-up. That's a 100% recruiting machine. That's all that is, because there is never a second sale. You never sell the person a second sale, so that's always 100% is about recruiting.

So when you stop recruiting, is the company going to survive? No, it's done, it's over. Shut the doors, put the chains on the doors, send in the Federal agencies.

Right there, I'm telling you guys, it's not hard to figure this stuff out.

Get with the person who invited you on this call. Crunch your numbers, see where you're at, see what you've got going on. Maybe you can position yourself better inside your own pay plan. Maybe you can sponsor a family member somewhere and leverage your pay plan better. You know, like twice the pay for half the work, something like that?

Richard Dennis: Let me ask you, Michael, talking about what really encourages recruiting the most, would you say (probably get myself in trouble here ... but) as far as the plan that goes the farthest in the other direction towards training and building and not recruiting, would you say that's the binary?

Michael Dlouhy: No! Nope, nope, nope, nope. No, the worse plan for recruiting is definitely the Aussie two-up. The second plan for recruiting that falls second in line is the binary. There is no such thing as training, coaching, there's no retailing. I mean, every binary plan ... the only binary plan that has retailing, they have to put a unilevel plan next to the binary. It's just that simple, Richard. It's just that simple. You've got to pay people for retailing product or there's none. It's always about recruit, recruit, recruit, recruit, recruit.

In other words, you should be able to go to a website and you should be able to just order product. Like I said, I've got people in a lot of different companies that just buy product from my website because they love my products, you know? They don't have to be a distributor, they just go buy the products.

And for the last 20-some years, I told you that shampoo? I've probably bought that shampoo from 7 different people. OK? And in the beginning, it was, "Well, you're buying this product, why don't you be a distributor?"

“I don’t want to be a distributor. It’s a crappy company. The guy that owns the company has beady eyes.”

Whatever it is, I don’t want to build the company, but I want the product.

Well, they’d try pressuring me to build the business. Ok, fine. I’d go to somebody else to buy the product. And it doesn’t take but about a split second to find somebody that will give you their ID# and let you buy it through their back office and buy it wholesale. The thing that absolutely infuriates me, Richard, is these companies that do “bait and switch”. In other words, the real price for the bar of soap should be \$2; but they charge \$5 wholesale, and \$8 if you’re not a distributor. Guys, whoa, whoa, whoa ... what’s wrong with the picture here? Let’s get a realistic price that’s value priced, that is in line with the real world. Let’s start there.

Oh no, they bait and switch. They jack the price up so that you’ll join to be a distributor. But I can tell you, Richard, if the people I buy that shampoo through, if they tried to tell me I had to build the business, I would just go online, I’d find another person in just about a split second. I could do a Google search and literally have thousands of people to call and ask them, “Hey, do you mind if I buy products through your website, give me your ID# and I’ll buy it.” And I’ll buy it just like I’m them and I’m getting it for wholesale. I’m not going to pay \$8 for a bar of soap, I’ll get it wholesale. Real simple. Real simple.

But there’s something wrtong with the business model that creates that, where you’re trying to fear-of-loss somebody into getting in, to get the super duper cheap super price. That’s a huge problem. Huge, huge!

Richard Dennis: Only in this Industry could you find an \$8 bar of soap.

(laughter)

Michael Dlouhy: Yeah. Yeah, but Richard, it’s only \$5 if you’re a distributor. So, gosh, I guess I better sign up and be a distributor. Oh, and then if you want the super duper cheap price, then you are going to have to be on autoship for a couple of hundred bucks worth of product to get it down to that super duper low price.

So when you’ve got those people like that, those are easy to find and say, “Here, give me your website and I’ll go order some shampoo from you” (or your vitamin or whatever it is).

So again, I love the way the call went, Richard. It always intrigues me how we get a little different information out there.

One thing I'd like to add to the back of the call here. If you want to know if you're in a scam, if the only way to pay for your product is with a money order or a wire draft—run, run, run! There are scams out there, Guys, (and I know most people on this call, they're not even going to have a clue about it) but there are scams out there; if the only way to pay for your product is with your money order or wire transfer—run, run, run!

Let's say it's \$5,000 and you wire me your \$5,000, Richard, or your money order to me, and I keep \$4,500 and send \$500 to the company. Run, run, run, run! Scam all the way.

Guess who is going to get busted in those companies, Richard? The company that got the little \$500? Or is it going to be the guy that got the \$4,500?

Richard Dennis: Well, I think we know the answer to that one.

Michael Dlouhy: Uh huh. You think the company's got all the names of all those people that got the \$4,500? Whew! These companies, man, I'm telling you what, they are really, really, really getting devious; really devious. These guys are dodging huge, massive, massive Federal sanctions against them and judgments and stuff because, "Well, we're not making the money. Well, I didn't know they charge \$4,500 for that? Oh my gosh, that's terrible. We only got \$500."

And I'll tell you what, boy, there's going to be a lot of people going to prison over those deals.

Richard Dennis: Let's hit one other thing real quick before we end, Michael. It's getting up near the top of the hour.

There's one item that just always fascinates me. We've talked about it before, that one of the things for people to look for in judging a compensation plan and determining a company too, is does the company own their own software. Can you talk a little about that?

Michael Dlouhy: Oh, Richard, that's one of the biggest things, and you know we need to talk about that more.

Most network marketing companies' software is designed and built by software designers and developers. They've never built a downline, they don't know how to spell MLM; they're Green-personality computer geeks that can design software. They've never been in the real world, in the field, and actually used this information and put this to work. There is the biggest problem.

Richard, there's a company (this will blow your mind), publically traded, bought their software, and they had a glitch in the giddy-up on the placement. And when you placed these people, they would go someplace else. And it was totally 100% the software problem.

The software company says, "Oh, well that's going to cost you for us to come in there and fix this bug", which was their bug. So the company goes and hires customer service representatives to handle all the customer service complaints of all these people getting placed in the wrong place. Then they started charging the distributors \$20 to move these people and put them in the right place, when it was their fault in the beginning.

Richard, it took them a year to fix it and it almost destroyed the company.

So, gosh, maybe you ought to have a software designer design the software that maybe knows how to spell M-L-M—it's called multi-level marketing.

Back to you Buddy.

Richard Dennis: (laughter) Yeah, very interesting.

We are at the top of the hour here. Would you like to go ahead and introduce the next call?

Michael Dlouhy: Yes sir. Coming up in 30 minutes, coming in at 10:30, we are reading *Spiritual Marketing* by Joe Vitale, chapter 1.

It is a laid back call. If you'd like to jump on there 5 minutes early, I will go ahead and answer any questions. If you've got a question on comp plans, please, please, p-l-e-a-s-e make it generic. Don't mention any company names or product names or anything like that. But if you have a specific question I could answer for you; or if you want to set up a coaching call, get with the person that invited you on the call, I'll make myself available for you for some coaching calls, answer any questions you have on compensation plans. Let's get those questions answered, and there are no foolish questions. The only foolish question is the one you don't

ask. If you don't understand how many people you need in your pay plan, you need to know that information.

I promise you this, if a professional network marketer was going to join you in your business, one of the first questions I would ask is "How many people do I need to make \$10,000 a month and get me a copy of your contract—your policies and procedures." I would want those two documents before I would even talk to you about anything; and I don't care if you've got 17 heavy hitters coming onboard, don't matter to me. Cause when you build it, it's from you down. That's it!

Richard Dennis: Yeah, absolutely. I greatly appreciate your time here this evening, Michael. Lots of good information. And I know, from all the people that I talk to, how people tend to focus on one or two things. We talk about the 5 Pillars, and there's 5 Pillars for a reason. Those 5 Pillars are all-important and you need to look at all 5 of them.

Compensation plan is certainly right at the top of the list there; you need to understand how that comp plan works, how you make money, and how many people is it going to take you in your comp plan to achieve a certain amount of income. It's just critical that you do that analysis before you spend a lot of time building a company.

Anyway, Michael, thank you very much for your time here this evening.

Michael Dlouhy: Ok, Richard, thank you.

Richard Dennis: And we appreciate all of you guys being on the line here, and we will talk to you on the next call. Good night.

MD/RD; jw 05/11