

How to Evaluate MLM Companies

Trying to decide between MLM companies, make sure you choose a good one!

In order to evaluate an MLM company properly, there are things that must be understood. “The expense can be high for an improper evaluation.” If you don’t join the right company, you could miss out on millions of dollars of income; if you choose the wrong company, you could waste resources (time, money, credibility, etc).

In my experience as a consultant and trainer for MLM companies and leaders worldwide, I have seen several good companies and several bad ones. It is essential that you select a good one. No, I’m not going to give you a list of good companies; evaluating each and every company would be a full-time job. Instead, I’m going to give you my criteria for evaluating an MLM company, thereby putting YOU in control.

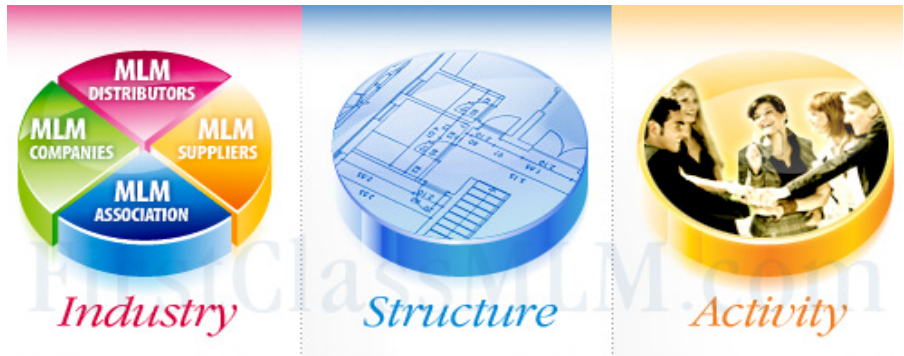
Here is a general view of how I evaluate an MLM company, listed in order of importance:

1. Is the company going to last long term? No one can be successful in a company that fails.
2. Does the product sell outside the network? Meaning, are there consumers who will buy the product that are not going to join the MLM business?
3. Will I be rewarded well for my efforts? This has to do with the commission plan.
4. Does the training produce a successful distributor?

Note: The last item on the above list deals with training. Training is extremely important as it sets in motion the activities of the group or organization.

However, the reason training is last on the above list is because there is effective training available elsewhere, obviously.

Multi-Level Marketing contains three major sections: the Industry, the Structure of the company, and the Activities of the distributors. Understanding how these three parts work independently and together is how you can properly evaluate an MLM company.



<p>The MLM Industry was proven a legal form of distributing goods and services by the U.S. Federal Government in 1979.</p> <p>In addition, the MLM business model has proven itself highly effective at distributing products and services to consumers based on the same benchmarks used by Wall Street.</p>	<p>The Structure of an MLM company is unique to each company. The structure of an MLM company is made up of:</p> <ol style="list-style-type: none"> 1. Intention of company owners. 2. Product or service they sell. 3. Commission plan. 4. Training provided to distributors. <p>These four structural parts dictate the activities of the distributors within an MLM company.</p>	<p>The Activities of both distributors and owners of the MLM company determine whether that company is operating legally and ethically - just like every other business.</p> <p>Legal and ethical activities in MLM include selling products to consumers that make their lives better, servicing the customer, and training new distributors so they get results.</p>
---	---	--

Industry

The Industry of MLM is made up of MLM companies, MLM suppliers, MLM associations, and MLM distributors. It's of little value to study the MLM "**Industry**," as it's simply the container which holds MLM companies and the people who distribute their products and services. By way of an example, if you wanted to study real estate, you wouldn't study the real estate industry - you would study residential housing or commercial buildings, property evaluation, building codes, construction, etc. The same is true for studying the MLM industry.

If you want to validate the legality of MLM, hire an attorney and have them read the document called "The Amway Decision" at the bottom of this page. However, make sure you review this page first. Remember, you're not asking the attorney, "Should I do MLM?" Most attorneys are not qualified to give you that advice as they've not succeeded at MLM. You're only asking them, "Is MLM legal?"

Now let's move to the Structure and Activities that make up each MLM company, which is what will ultimately make up your experience in MLM.

Structure & Activities

The structural components of MLM vary company to company and set in motion the type of company it will be - good, bad, ethical, unethical, successful, unsuccessful, legal, and illegal. Yes, a company can be illegal in a legal industry. For example, there are doctors who do illegal things within the legal medical industry.

Good companies and bad companies are "made" based on:

1. The intention of the company owners.
2. The product (or service) they sell.
3. The compensation plan they use to reward production.
4. The type and effectiveness of the training

Poor company intention:

Evaluating an MLM company is not much different than looking for employment in a traditional company. If the company owners have the intention to “get rich” without providing a valuable product to a consumer or providing a valuable opportunity for the company’s distributors, then the company will have a hard time surviving. In publicly-traded MLM companies, the company’s “fiduciary duty” is to the shareholders of the company instead of to the distributors. Shareholders demand increasing stock value. If that demand results in reducing the amount of commissions paid to distributors, then the death of the company is soon to follow. Another indication of poor company intention is if the company has a short-term vision of making several million dollars and then selling the company to investors.

Good company intention:

Good company intention is where the owners have a long-term vision of helping people with their products and a long-term vision of providing a valuable opportunity for their distributors.

MLM companies should view their distributors as their greatest asset.

How to evaluate the company:

1. Ask how the company got started and who started it. Is the dreamer who started it still involved? Has the company been sold to investors? If yes, it’s not a good sign unless the purchaser has a similar or greater vision.
2. Ask if the company is solvent (capable of meeting financial obligations).
3. Ask if the company is growing (more sales than last year). In a private company (one that is not publicly traded on a stock exchange) this may be difficult to find. This doesn’t mean the company is “hiding” something. However, I like it when a private company allows an outside accounting organization to “rate” them. Dunn & Bradstreet is such an accounting organization. The MLM company doesn’t open its books to everyone, but will open its books to an accounting organization who will issue a rating on the company. If a private company is unwilling to do this, then it’s very hard to evaluate. Also, just because a company doesn’t have more

sales this year than last year doesn't mean it's not a great company - but if it does have increasing sales, that's a plus.

4. Does the company listen to and implement suggestions from leaders? The company doesn't have to implement all suggestions - the important thing is that the marketing arm (the distributors) must communicate with the product arm (the company) to create strategic plans and better products. Most good companies have a "leadership council" of some kind that meet quarterly or semi-annually.

5. If the company is over 10 years old, does it reinvent itself by opening in new countries and creating new products? A "single" product company will find itself running out of customers after a given period of time, just like any company does.

Poor company product structure:

If an MLM company selects a worthless or overpriced product, the company will most likely not last. Distributors will not be able to sell the product if it is low-quality or can be purchased at a lower cost from another MLM company or traditional industries. If the product is low-quality or too expensive, distributors will focus on recruiting new people rather than selling the product because the business idea is easier to sell. This creates a company where the only people consuming the product are the distributors. Do you see how poor product structure dictates poor distributor activities? This is extremely important and explains how it is possible to have an unethical (or even illegal) company within a legal industry.

Good company product structure:

Conversely, if a company selects products that are valuable to consumers, then distributors will enjoy selling them because the consumers will be enthusiastic about the products. It also makes it easier to recruit new people because those who consume the product will want to become distributors. A valuable product is the backbone of a successful company because it's what makes a consumer's life better. Only valuable products cause a consumer to keep purchasing them.

How to evaluate the product:

1. Your first step should be to buy the product (or the service) and use it. Do you like it? If you don't like it, don't join the company.

2. Are there a lot of customers who will want to buy the product or use the service?

3. Identify what "niche" of buyers you will be dealing with. A niche can be viewed as a group of buyers. Take cars as an example: a lot of people buy a car for basic transportation - that's a niche. Others buy more expensive cars, such as minivans, sports cars, or even Rolls-Royces. All of these niches have been successful. You need to ensure that the MLM product or service you will be selling is in a niche you want to be in.

4. Is the product (or service) effectively priced? Personally, I'm not one who wants to sell the cheapest product on the block. I much prefer to compete based on quality. I also love to have patents on the products I sell. But to be competitive, you need to have a product that is price-competitive. If it's not, there has to be some legitimate reason why not. Take vitamins as an example: you can buy Vitamin C very cheaply, or you can buy it expensively. If Vitamin C is all the same you would not have a sellable reason to charge more. But all Vitamin C is not the same - high quality Vitamin C costs 25 times more wholesale than the synthetic version. If you can explain the difference, this will justify the more expensive price for your product.

Poor distributor commission structure:

If a company uses an MLM compensation plan that rewards only the recruiting of new people and doesn't reward the sale of products to consumers, the company will have caused the *activities* of the distributors to be focused exclusively on recruiting new people and not selling products. This is not bad if the company is set up to be a wholesale buying organization. But it is bad if the company is set up to be a retail sales organization and no one is selling products. I hope you get the importance of this - the company can have a great product, but if it doesn't also have a compensation plan that rewards people for selling the product the *activities* will be primarily focused on recruiting new distributors! Also, if the company has a commission plan that pays out too much money to distributors, the company can go bankrupt. So don't

fall for the new company that claims, “We pay out higher MLM commissions than any other company!” That is just hype.

It’s also important that people are not allowed to “buy” the top level of the commission plan. Let me explain: suppose that in a commission plan a person who has developed six leaders receives a higher percentage of commissions. If a person is allowed to *buy* that position rather than earning it, then people with money can bypass developing leaders. That “short-cut” is extremely damaging long-term, as those who buy the commission plan are bypassing learning how to be a leader and how to develop leaders. If people can buy those commissions rather than earning them, training will no longer focus on developing leaders; purchasing higher levels of commission will become the focus. Those people who really can’t afford to buy the levels will try to emulate their upline and buy the levels on credit cards. This is a house built on sand! This activity will eventually destroy the company and its distributors.

Good distributor commission structure:

The ideal commission structure is one that rewards distributors for selling product, rewards developing leaders, and whose top level is relatively difficult (but possible) to obtain (explained more here). Those that obtain the top level should earn at least \$500,000 dollars per year. Last, the MLM company should not allow members to purchase positions in the commission structure.

How to evaluate the MLM compensation plan

1. The commission plan should allocate approximately 40-50% of every profit dollar to the commission plan.
2. The commission plan should reward at least 30% profit margin for wholesale to retail mark-up. This rewards the person for selling the product to a consumer.
3. The commission plan should be difficult to achieve - but it should be achievable.
4. The top level of the commission plan should pay out a minimum of \$500,000.00. This amount is based on the current income level it takes to attract strong leadership.

5. The company should not allow people to bypass developing leaders by buying positions in the compensation plan.

Training activities

As you've learned from the above, the product and the compensation plan have an enormous amount to do with "setting in motion" the activities of the distributors. However, the training is the main part of the business that most directly affects the distributors' activities.

I've seen MLM companies that have done everything right (great intention, great product and great compensation plan) but end up destroyed because of distributor leaders whose training activities create an unethical atmosphere that honest people do not want to be a part of, or that even drag the company into trouble with the state or federal government.

In MLM training, there is something called "The ___ System." It might be called the "Fast Start System," or the "Company Training System," etc. The "system" is the method a distributor uses to introduce a prospect to the business. **This is only part of the training that is needed.** An effective MLM training process should include EVERYTHING A PERSON REQUIRES to succeed. Read and reread that sentence until it is really understood! This would include how and what to say to prospects, how to respect prospects, how to service prospects - as the majority of people do not come to MLM having this skill.

The MLM training is what converts a distributor into someone who is effective in MLM. This isn't any different than any other organization in the world. Those organizations (sports teams, military, corporations) who train their people better than any other always do better than less-trained organizations.

If you find the company, compensation plan, and products to be desirable, but the activities of the individuals who are training you to be undesirable, you may need to branch off and create the culture you envision. If that's the case, you found the right web site.

How to evaluate MLM training

1. Does the training produce an effective distributor? The only real test of training is, “Does the MLM training create success?”
2. Does the training include selling the product to consumers?
3. Is the training specific and does it teach you all the skills necessary for MLM success?

Below are some examples of activities to watch for - both good and bad. These activities will indicate whether people are being trained correctly or incorrectly:

Do they promise you enormous sums of money for little or no production?

These poor examples are not made up - they are just as I’ve heard them.

Example of poor activity: “This company is amazing! I joined 3 months ago and my check is now over \$30,000.00 per month! I don’t even know what I’m doing! This is so crazy - I just tell people about it and my check keeps going up!”

Example of good activity: “This company is amazing! I joined 3 months ago and took the training very seriously. I have about 30 customers who love the products/service. I’ve sponsored a handful of people and am working with them to train them correctly. I’ve already surpassed the income I was making in my previous job, but now I get to be at home with my family.

Do they violate laws by claiming their products do things like cure cancer or heart disease?

Example of poor activity: “These products are amazing! Oh, my gosh! My brother was diagnosed with cancer last year and I got him on the products and now he has NO MORE CANCER! I used to have migraine headaches and these products got rid of my migraines! I also don’t have PMS anymore!”

Example of good activity: “These products are amazing! Personally, prior to using the products I had migraine headaches. I can’t claim the products had anything to do with the migraines going away because I increased my water intake to take the products, but someone would have to pry these products out of my hands. I like them that much!”

Are they interested in you?

Example of poor activity: Do they call you and tell you what “they’ve got” without caring what you want? Do they cause you to feel like just a cog in their wheel?

Example of good activity: They talk to you like a person. They’re polite, ask you how you are and what you’d like to achieve. They return your phone calls and e-mail within 24-48 hours. They work to locate “where you’re stuck” and then provide workable solutions to get you unstuck.

NOTE: The above is a two-way street. You cannot expect someone to work hard for you and you not work hard for them. Be industrious when you’re not on the phone with your upline. There’s nothing worse than a leader taking the time to train you and you not doing anything.

In conclusion to this page on “**How to evaluate an MLM company,**” find a company whose owners are committed to products that actually help make people’s lives better, a company whose owners see their distributors as their most important asset. Also, make sure the compensation plan pays its leadership very well and that there are leaders who have achieved the top level. This is difficult with a brand new company, so you will have to compare their compensation plan to a company that has a similar compensation plan. If the person who is recruiting you is a good trainer, consider yourself very fortunate; if not, don’t complain - that’s a waste of time. Just teach yourself.