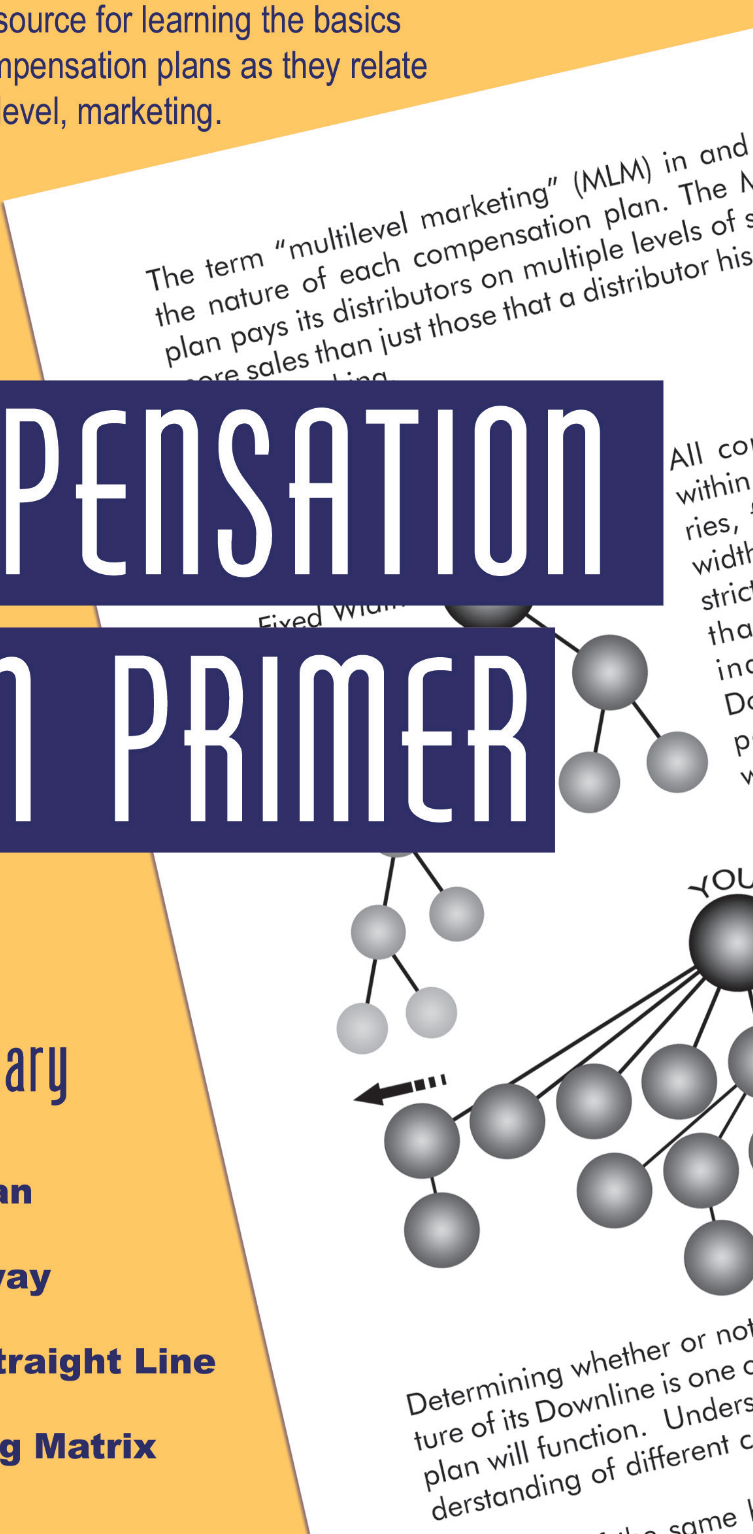
An informational resource for learning the basics associated with compensation plans as they relate to network, or multilevel, marketing.

THE COMPENSATION PLAN PRIMER



Written by
John Pierce
and Peter Spary

- ✓ **Australian**
- ✓ **Binary**
- ✓ **Breakaway**
- ✓ **Hybrid**
- ✓ **Linear/Straight Line**
- ✓ **Matrix**
- ✓ **Recycling Matrix**
- ✓ **Unilevel**

A resource for selecting a compensation plan for your company

THE COMPENSATION PLAN PRIMER

If you are interested in learning about MLM compensation plans while avoiding hidden agendas, this is the book for you.

The Compensation Plan Primer was not written to persuade you that one compensation plan is better than another. It was written to give you an understanding of the different compensation plan types in order to assist you with choosing the plan that will best support the needs, goals and vision of your company.

Whether new to MLM or a seasoned veteran, the Compensation Plan Primer will provide you with insights on how to make the compensation structure a successful part of your company.

Written by Peter Spary and John Pierce, this book will give you an insider's look at compensation plans from those that have made them their living.

For more information on the book or its authors, please visit www.mlmcorporate.com.

Dedication

This book is dedicated to the entrepreneurs of the world. You are the explorers and the spirit that drives industry. We are grateful to you and hope that this book will help guide you in your MLM journeys.

DISCLAIMER

The following pages were written in a generic style, based on information gathered from many different sources. This book is sold “as is”, without warranty of any kind, either expressed or implied, respecting the contents of this book, including but not limited to implied warranties for the book’s quality, performance, merchantability, or fitness for any particular purpose. Neither the authors, their families, nor those involved in the layout and printing of this book shall be liable to the purchaser or any other person or entity with respect to any liability, loss, or damage caused or alleged to be caused directly or indirectly by this book.

The Compensation Plan Primer

An Introduction to Compensation Plans

Introduction

Welcome to "The Compensation Plan Primer", an informational resource for learning the basics associated with compensation plans as they relate to network, or multilevel, marketing ("MLM").

This book provides definitions of generally accepted industry terms, as well as opinions on compensation plans on the whole and a discussion of each of the major compensation plan types.

The intent of the primer is not to sell you on one compensation plan over the other.

Quite to the contrary, its intent is to provide an unbiased evaluation of each compensation plan type in order to help you make an informed decision on which is best suited for you and your company's needs and goals.

Successful compensation plans are but one element of successful companies. Neither a well nor a poorly designed compensation plan will be the deciding factor in the success or failure of a company. It is important to understand how a compensation plan will fit a company on the whole in order for implementation of the plan to be a success.

Use "The Compensation Plan Primer" as a resource for making the compensation plan you select a valuable part of your company.

About the Authors

"The Compensation Plan Primer" was co-authored by Peter Spary and John Pierce.

Peter has been involved with MLM for over a quarter century. Starting as a distributor in 1972, Peter learned the ins and outs of multilevel marketing through hands on experience, hard work and persistence.

Over time, Peter Spary rose to prominence as the top distributor for two MLM companies prior to launching his own and ultimately branching out to become a service provider to the industry. Peter's unique blend of experience from the distributor, company owner and service provider perspectives has instilled in him an ability to craft solutions that address the diverse needs of the different groups.

Paramount amongst Peter's many achievements is the founding of MultiSoft Corporation (www.multisoft.com), a preeminent software and solutions provider to the network marketing industry since 1987. Continually active in his pursuit of innovation, he remains committed to providing quality consulting and software through MultiSoft.

John Pierce's experience with MLM compensation plans is a unique one. He began working for MultiSoft Corporation in 1997 as a technical support representative.

Seeking advancement, he asked the owner of MultiSoft, Peter Spary, what he could do to further his position with the company. The answer was simple: "Learn compensation plans inside out and you will have a future with the company".

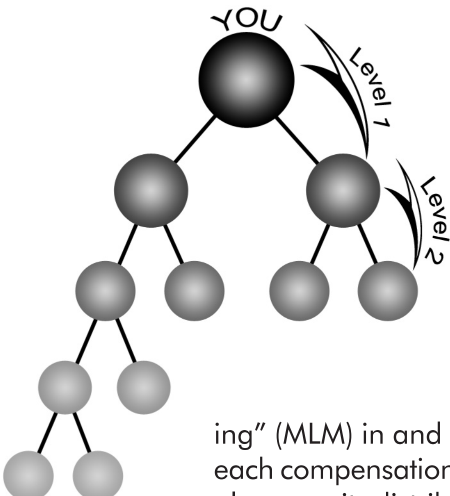
Many years and thousands of compensation plans later, Peter held true to his word with John having served in the capacity of Chief Operations Officer for the company. During his time with MultiSoft, John has reviewed nearly every compensation plan to come through the door, authored over one hundred of his own plans and participated in numerous consulting sessions related to them.

This resource will provide you with an understanding of compensation plans through the eyes of those that have made them their living.

Chapter 1 – Opinion on Compensation Plans

What is an MLM Compensation Plan?

A compensation plan is the vehicle by which an MLM company rewards its distributors for selling the company's products and services. In general business terms, some companies hire employees and pay them a fixed wage while other individuals may work for a company on contract.



MLM distributors are not employees of the company they are affiliated with, they are independent agent contractors. A compensation plan is the stated means by which the distributors will be rewarded for their efforts with the company.

The term "multilevel marketing" (MLM) in and of itself describes the nature of each compensation plan. The MLM compensation plan pays its distributors on multiple levels of sales activity; i.e. on more sales than just those that a distributor his or herself is responsible for making.

In summary, the key thing to keep in mind when speaking of an MLM compensation plan is that it is intended to reward a company's distributors on the sales efforts of multiple levels of salespeople.

Will my Compensation Plan make me rich?

A common pitfall encountered by new company owners is the notion that the compensation plan will be a source of revenue for the company.

Compensation plans are not the vehicle by which the company makes money. Distributors make money through compensation plans, however the company itself should always focus on making money through the sale of product and service.

"Breakage" is something that many people will site as proof that the compensation plan is generating revenue for the company. That could not be further from the truth.

For those unfamiliar with the term breakage, it refers to dollars that were eligible to be paid out under the terms of the compensation plan, but which were not because no one qualified to earn them. While certainly a windfall, breakage does not represent revenue.

Revenue is generated only on sales made. Without sales there could be no compensation plan (and likely no company either). A company with $10,000,000 in sales volume, but only a 10% commission payback will trump the company with $100,000 in sales volume and 100% payback every time. After all, 10% of ten million dollars is much more attractive than 100% of one hundred thousand dollars.

To be successful as a company and enjoy the fruits of your labor, you must sell product, not rely on breakage within a compensation plan.

<u>Legality</u>

Myths and rumors surrounding the legality of compensation plans are abundant. Many of these are a backlash of success.

By this, we mean that myths and rumors are manufactured by competitors to diminish the successes of others. As an example, you may have heard a statement such as "all Binary plans are illegal" or "stay away from that company, their pay plan is sure to land you in jail."

Statements such as those above are simply not true. In fact, the mechanics of a compensation plan have little bearing on the legality of a company on the whole. During our years of experience with MLM, we have yet to encounter anyone being sent to jail because of the design of their compensation plan!
The focus of regulators will primarily be on how people join your

company as distributors (if your opportunity is considered a lottery), whether or not you are delivering value for money collected and whether or not the validity of claims made about compensation are accurate.

Lotteries

Avenues of joining a company and lottery laws are very much intertwined. Most of us are familiar with the concept of a lottery – a lottery player purchases an opportunity to win a reward. Regulators will scrutinize your company from this perspective.

If a purchase is required to earn commissions, you are a lottery. If no purchase is required to earn commissions, you are not a lottery. Only the government is permitted to hold lotteries; you do not want to be viewed as a lottery.

MLM companies are in business to sell product and service. You can require that someone sell a prescribed amount of volume in order to earn commissions, however you cannot require that a person make a purchase ("buy a ticket") his or herself.

Delivering Value

If you are not delivering value for money collected, you will have problems. Remember, the purpose of network marketing is the sale of product and service. You must offer a legitimate product or service for sale if you are to be considered a legitimate company.

Assigning value to a product or service can be a subjective endeavor, however it is best tempered by common sense.

As an example, you could choose to sell a nutritional product. That product has substance and can clearly be evaluated for effectiveness. As long as it is priced in the same general range as like products, it is justifiable in stating that the product has value.

On the other hand, if you chose to sell prayers, the ability to demonstrate value becomes more difficult. The prayer isn't tangible – you cannot see it, smell it, taste it, touch it or directly access it for personal advancement. Establishing the value of the prayer, or if it was even delivered for that matter, is practically impossible. Even if you believe strongly in the power of the prayer, there is no clear cut method of establishing value for it.

Claims on Earnings

Claims on earnings are another regulatory focal point. Any projected statement of earnings must be provided with the caveat that the statement is not a guarantee that such earnings will be realized. If you do make a guarantee, you must have the hard facts to back it up.

For instance, it is perfectly acceptable to state that “over half of our distributors make $1,000 in their first month”, so long as you can produce hard evidence that at least 50.1% of all distributors that join your company earn $1,000 or more in their first month. If you cannot factually demonstrate the accuracy of statements such as these, then you are making false claims on earnings.

It is important to state that we are not attorneys. Our understanding of legal issues related to MLM comes exclusively from working with attorneys. It is important that you seek sound legal advice for your business and leave final legal decisions to your attorney.
Do not let rumor, innuendo and hearsay govern how you will select a compensation plan or run your company. Contact a competent MLM attorney. There are several well known attorneys that have specialized practices devoted exclusively to MLM law.

People often ask when the best time to contact an attorney is. Our opinion is that it is best to contact an attorney after you have developed your business concept and compensation plan, but before it is launched to the public or carried to fruition. By following this protocol, you are frequently able to better manage billable hours by allowing your attorney to perform review vs. building your concept from the ground up.

The difference between a “legal” and an “illegal” company is often nothing more than the replacement of a few key words in your literature. Take a concrete concept to your attorney so that he or she is performing a review versus helping you build from scratch.

Importance of the Compensation Plan

Having worked with many companies from the perspective of designing and building software to support them, it is surprising how often people think that the most important aspect of launching a new venture is finalization of the compensation plan.

We have managed a software development company that makes its living on programming compensation plans for clients. Naturally, the more complicated a compensation plan is, the more rules, twists and turns it employs, the harder (read: more costly) it is to develop.

If you learn nothing else from this primer, commit the following to memory: Formulation of a compensation plan is not the most important aspect of launching a new company and, the more complicated a plan is, the less chance it has of being a successful part of your business.

Too often, people would come to us for software, convinced that they needed a Matrix or a Binary or the popular plan of the moment, but would not yet know what they were going to sell or who their management team would be.

Unequivocally, a well designed compensation plan is important for a company's success, however the cold reality is that a lucrative compensation plan does not guarantee success, it only helps place you in a position to succeed. A compensation plan that is designed to fit your company's product/service, target market and overarching business philosophy will have a greater positive impact than one that was designed to "pay a lot of money".

Keep Perspective

When evaluating how a compensation plan fits into your company, keep perspective. Take a look at some of the other companies out there. Go to an Amway, Herbalife, Nikken, etc. opportunity meeting, not to be sold, but to learn more about how they function as a company.

The results of what you find may shock you. Not all companies are selling themselves on the prospectus of making their distributors wealthy overnight.

As an example, take a careful look at Amway. Amway distributors are coached not to expect an immediate cash windfall. Instead, they are taught how to build a business according to the Amway model and expect a return on their effort at some point – often years – in the future.

The lesson learned from Amway is most impressive. They are one of the longest established MLM companies with an instantly recognizable name selling a high volume of product, all while being upfront in their assessment that a successful sales organization can take time to develop.

Amway has built its business on the principle of fostering "community"; community being a term representative of the understanding that people want to build relationships and feel efficacy in their ability to participate in a greater good. Experts at community building, Amway is a prime example of a company that has achieved a high degree of success without making their compensation plan the focal point of the business.

Building a Successful Compensation Plan

Building a successful compensation plan is about building a complete company. By complete company, we mean one that satisfies 5 basic key areas of core competency and also has those areas operating in unison with one another.

This primer is about compensation plans, one of the 5 key areas of core competency. It is important, however, that the other 4 areas each be briefly reviewed here in order for a winning compensation plan to be constructed.

Each of the 5 areas, listed in order of importance, is: Management, Product/Service, Opportunity, Community and Compensation.

Management

Management is the brain of your company. Without it, the company would blindly stumble without purpose, conviction or direction. While disagreement among management can be healthy, the management team must share a common vision.

The first thing that you should do with your company is establish the management vision – who the company is and where it is going. Once the vision is solidified, you are ready to bring in management personnel that share in and help drive the company towards its intended vision.

Bottom Line: send a common message from the brain so that the body will follow.

Product/Service

The purpose of MLM is to sell product and service. If you are contemplating the launch of an MLM venture because you are under the "get rich quick" ether, stop now and save yourself time, money and heartache.

The cornerstone of any successful MLM company is its product or service offering. Whether it is a single dynamite product or an entire product line, a viable product is a surefire way to make repeat sales.

Pressure selling may well cause people to initially join your company, but only a solid product or service will prompt them to continue buying.

Bottom Line: substance sells.

Opportunity

A successful MLM company will sell opportunity as well as product and service. Opportunity can come in many shapes and forms and does not always have to be strictly monetary in nature.

Often times, opportunity can be as simple as recognition – you would be surprised how many people are motivated by the chance to attend a company leadership conference or receive a special pin that is a visual representation of an achievement earned.

Bottom Line: build your ceiling high so that people don't bump their head when jumping for the dream.

Community

The term <u>network</u> marketing aptly describes this industry for the very good reason that regardless of the amount of technology introduced, MLM remains a face to face business. MLM unequivocally serves as a social outlet for many people. You will have to build networks of relationships in order to succeed; MLM and solitude do not mix.

Recognizing and understanding this is essential to building a strong team and support structure (selling can be a tough business!). Face to face activities that spur participation will lead to relationships on which business can be built.

Bottom Line: forge unity through community.

Compensation

A successful compensation plan accounts for the other four key areas before it is formulated.

Take into consideration the following when designing a compensation plan:

1. Does it serve management's vision? If it does, the organization will support the compensation plan. If not, the compensation plan will be eroded by those that wish to change it.

2. Does it fit the product/service being sold? This can require time and practice to determine. For instance, a product with a low com-

missionable margin may not be suitable for a Binary. Refer to the "Plan Types" portion of this publication for additional information on specific plan types.

3. Does it offer opportunity? Be sure to build a plan that offers plenty of room for growth and future achievement. This can be in the form of additional ranks or increased earning potential; the level of difficulty for reaching goals can vary, the important element is allowing prospective distributors to visualize a future for growth within the opportunity.

4. Does it foster community? Compensation plans should be a catalyst for getting distributors to work together. Design bonuses that are dependent on working with the sales organization instead of against it. Many traditional sales outlets encourage pitting salespeople against each other. In MLM, we want our distributors to work together whenever possible.

When the compensation plan lines up with the other organizational goals and philosophies, it stands a much better chance of succeeding than one that does not.

Often times, company owners will hire outside resources to assist with plan formulation. In and of itself, there is absolutely nothing wrong with that and it can certainly be beneficial. What should be a consideration, however, is that the outside party learn about the organization on the whole before designing a compensation plan to suit it.

Bottom Line: a lucrative compensation plan will not lead to a successful company, however a successful company will make a compensation plan lucrative.

Chapter 2 – On Definitions

Differing terminology usage can cause confusion when discussing compensation plans. For instance, your neighbor's interpretation of what the term "level" means may differ from yours. This difference in meaning is typically the result of personal experience.

Your experience may have been with "company X" while your neighbor's was with "company Y". Companies X and Y used the term level to mean two different things. Since each of your experiences is uniquely with those specific companies, an assumption is made that usage of the term also applies to the other's company.

While often times the same term may have the same meaning across companies, in some instances it will not.

This area will provide you with the most common uses for a particular term, but does not guarantee that all companies will use the term the same way – only that most companies will use the term in the fashion described here.

MLM companies are entitled to develop their own lexicon. In fact, many intentionally do in order to brand themselves with a more recognizable identity. If a term you were familiar with through your dealings with company X does not match what is listed here, it does not mean that the specialized vernacular you have encountered is "wrong". It simply means that many other companies use an alternate definition.

In order for a definition to make the listing here as a common term, it must have been used in the same fashion by the majority of the companies we have worked with.

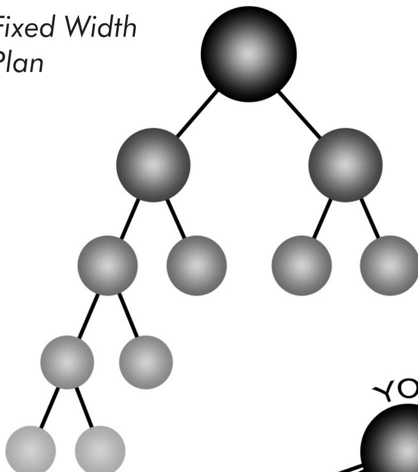
<u>Basic Definitions of Compensation Plan types contained within this Primer</u>

Before drilling down into specialized definitions, it is important to have a basic understanding of the different compensation plan types contained within this resource.

Are there more compensation plan types in the marketplace today than those discussed in this book? Yes. From time to time, you will encounter a novelty. Sometimes these novelty plans are nothing more than one of the recognized plan types with a custom branded name. Occasionally, you may encounter a new idea altogether, however it is reasonable to state that the vast majority of what is in the marketplace today is addressed within this primer.

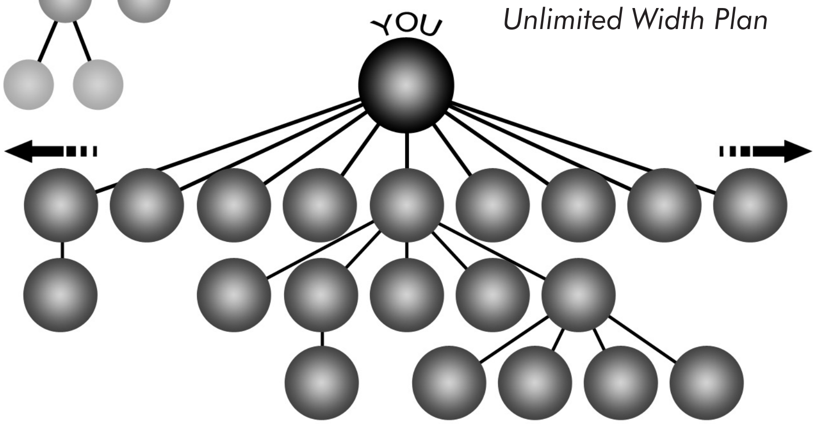
Fixed Width vs. Unlimited Width

Fixed Width Plan



All compensation plans fall within one of two basic categories, fixed width or unlimited width. Fixed width plans restrict the number of distributors that can be placed on an individual's first level of Downline (first layer of salespeople) whereas unlimited width plans do not.

Unlimited Width Plan



Determining whether or not a plan places restrictions on the structure of its Downline is one of the first keys to understanding how the plan will function. Understanding structure is essential to your understanding of different compensation plans.

Variations of the same bonuses are frequently used interchangeably between the different compensation plan types. In order to determine what type of plan you are evaluating or considering to use for your own purposes, first drill down on whether the plan is fixed or unlimited width and then evaluate the bonuses within.

Examples of fixed width plans are Matrices (Standard Fixed width, Expanding width, Linear and Recycling) and the Binary.

Examples of unlimited width plans are Australian and Unilevel (including Breakaway variation) types.

Australian

Australian plans are unlimited in width. They are a derivative of the Unilevel. Australian plans can have just as many bells, whistles and bonuses as a Unilevel, however all Australian plans have a defining characteristic that separates them from a standard Unilevel.

This defining characteristic is the "pass up". The pass up feature prescribes that individuals must pass a certain number of personally enrolled to their sponsor.

For instance, a "2 Up" Australian would require that you give your first two personally enrolled to your sponsor. Your sponsor would then be the primary beneficiary of the commissions generated from the two pass ups. You, in turn, would then receive pass ups from your third, fourth, fifth, etc. personally sponsored in the form of the first two that they each recruit.

Binary

Binary plans are fixed in width. Strictly from a structural standpoint, Binaries can be viewed as two wide fixed width Matrices.

In a Binary, you can never have more than two people on your first level of Downline (sponsorships beyond the second are inserted into the Downline via "spilling", a concept reviewed later in this primer). Placing the two side by side, one can be viewed as the head of your "Left" team and the other the head of your "Right" team. Your two teams can then stretch to an unlimited depth.

Commissions are paid in the Binary based off sales accumulated between the two teams.

Breakaway (also known as Group Volume Breakaway)

At its essence, a Breakaway plan is a Unilevel (unlimited width) that utilizes a specific set of bonuses. Because of the popularity and recognition of the term Breakaway, it is included as its own plan type here.

Breakaway plans are characterized by the notion that when a Downline salesperson reaches a certain level of achievement, that person, and those below him/her, breaks away from your primary sales team.

You continue to receive commissions as usual on your primary sales team, however you then also receive overrides on the team that has broken away.

Hybrid

Hybrid pay plans are combinations of the other various plan types listed in this section; e.g. “Binary/Unilevel”. Refer to the “Defining the Plan Types” portion of this primer for additional information on Hybrid plans.

Linear/Straight Line

Linear plans are fixed in width. Strictly from a structural standpoint, Linear plans can be viewed as “1 wide” fixed width Matrices. In other words, all distributors are stacked one on top of the other in a straight line. These plans were quite prevalent at the turn of the millennium.

Conceptualize the Linear plan as a giant tube. Each new distributor/sale inserted into the bottom of the tube moves all those in the tube up one position and pushes the highest distributor out of the top. The distributor pushed out the top then receives a commission and has the option to reenter at the bottom.

Matrix, Fixed Width

Matrices are fixed width in nature, limiting the number of distributors that can fall on any individual's first level of Downline. The first level width can vary by Matrix implementation.

For instance, a "3 wide" or "3 x" Matrix would indicate a maximum first level width of three. A "4 wide" or "4 x" would indicate a maximum first level width of four and so forth and so on.

When encountering a term such as "3 x 7 Matrix", it is important to note that only the first number represents the width. The second number represents the depth of a particular bonus payment.

Like Binaries, once the first level is filled, Matrices insert new sponsorships into the Downline via spilling – a concept discussed further later in this primer.

Payout within a fixed width Matrix can come from any number of bonuses, the important thing to keep in mind is that when you hear the term Matrix it is referencing a set Downline structure.

Matrix, Expanding

Expanding Matrices are exactly like their fixed width counterparts with one twist. In an expanding Matrix, a distributor can increase his or her first level width by meeting specified qualifiers.

For instance, the company on the whole is built on a 3 wide structure, however, because you achieved a higher level of standing with the company, you are permitted to increase your maximum first level width to 4.

The advantage to this is that it gives the expanding income center a larger Downline to earn commissions on.

Matrix, Recycling

Like the Linear, Recycling Matrices are fixed width and enjoyed an explosion in popularity shortly after the turn of the millennium. Although called a Matrix, these plans operate more like a Linear.

By this, we mean that they pay a commission once a certain number of distributors/sales are below you. Whereas a Linear evaluates the payment of a commission based on the number of people/sales in a straight line below you, the Recycling Matrix evaluates the payment of a commission based on the completion of a structure below you.

As an example, a 2 x 2 recycler would pay a commission when a two wide, two deep structure was filled. Also like a Linear, participants in a Recycling Matrix have the opportunity to begin building another structure in order to earn another commission.

Unilevel

Unilevel plans are unlimited width in nature and offer the most flexibility with respect to structure because they enforce the least amount of structural rules.

Although some Unilevel plans will allow you to place personal sponsorships in a position of your choice within the Downline, more typically all of your personally sponsored fall on your first level, their personally sponsored fall on your second level and so forth and so on.

Unilevel plans do not require pass ups like Australians and do not employ spilling like the fixed width plan types. In a Unilevel, your neighbor may have only four people on her first level while you have twelve (or more or less) – the plan does not dictate a frontline width for each income center.

Common Definitions

Definitions within this area are notated by the compensation plan type they are typically associated with. The following key further explains the notations:

- General = a term commonly used between all compensation plan types.
- Australian = a term that would be associated with Australian compensation plans.
- Binary = a term that would be associated with Binary compensation plans.
- Breakaway = a term that would be associated with Breakaway (Unilevel variation) compensation plans.
- Matrix = a term that would be associated with Matrix (Standard Fixed width, Expanding width, Linear and Recycling) compensation plans.
- Unilevel = a term that would be associated with Unilevel compensation plans.

Just because a definition is listed as being associated with a plan type does not certify that any particular compensation plan will use the definition. As an example, the term "Compression" can be associated with Unilevel plans, however not all Unilevel plans may use compression.

Definitions are provided in alphabetical order. In addition to the notation, each definition is followed by "Commentary" where appropriate.

Activated (Binary) – Activated is most commonly used with Binary plans, specifically to refer to the purchase of a particular product(s) within the Binary – always the product(s) on which Binary commissions will be paid. E.g. purchase or sale of product 'X' will award Activated status.

Commentary: Activated is important with respect to Qualified status in Binaries; refer to the "Qualified" definition for a better understanding of the purpose Activated status serves.

Active (General) – the term Active is frequently used to indicate that an income center has attained a prescribed amount of Personal Volume (PV) in a commission period. Active is typically used as a compensation plan qualifier or for compression purposes.

Commentary: more often than not, and especially in unlimited width plan types, Active status is important with respect to compression. Refer to the "Compression" definition for an understanding of that concept.

AutoShip Personal Volume (Australian, Breakaway, Matrix, Unilevel) – abbreviated as APV. APV is the sum total CV purchased via an AutoShip order by a particular income center and that income center's personally sponsored customers in the current commission period. Note: all APV counts towards the PV tally by default; refer to the Personal Volume definition for additional information.

Commentary: as discussed later in this primer, AutoShip is a powerful tool for driving sales volume in the compensation plan. Recognizing PV generated from AutoShip separate from PV generated by one off orders can be crucial to providing incentives, often times in the form of lesser commission qualifications, that encourage distributors to setup recurring orders for themselves and their constituents.

Benefit (General) – a reward – commission, bonus, title, etc. – earned for successfully meeting qualifications within the compensation plan structure.

Binary Commissionable Volume (Binary) – abbreviated as BCV.

BCV is the value of a product to count against the commission cap. During Binary commission processing, BCV for all invoices will be tallied. If the commission processing calculates company wide earnings totaling more than X% (designated cap percentage; maximum payback) of the sum total BCV present on all invoices for the period, capping of commissions will be necessary.

Commentary: refer to the "Commission Cap" definition for additional information on how BCV impacts a Binary commission cap.

Breakage (General) – refers to any dollars that could have been paid in the compensation plan, but which no one qualified to earn. The unearned dollars are returned to the company as breakage. E.g. company X's compensation plan pays back 75% of CV. In the current commission period, there was $1,000,000 in CV present. Because the company pays back 75%, the maximum payout would be $750,000.

At the time of commissioning, $680,000 is calculated as the total company wide payout. The difference between $750,000 and $680,000 represents the dollars that could have been earned but were not. Breakage is the term used to represent the difference, in this example $70,000 that returned to the company.

Commission Cap, Global (Binary) – a global commission cap ensures that no more than X% (variable percentage determined by company) of the total BCV invoiced for a commission period is paid out during that period's commission calculations. Following is an example of how a commission cap works. This example is based off 60% of the BCV being the most that a company would want to pay out during a commission run.

This commission cap will ensure that no more than 60% of the BCV associated with invoices belonging to the current commission period is paid out during a Binary commission processing. Note: only products with BCV that are found on invoices with a date inside the current Binary commission period will count towards the cap.

The mechanics of the cap are as follows. At the start of the commission run, 60% of the BCV for the current Binary commission period will be calculated. The resulting figure is referred to as the "Max Pay" – the maximum amount of commissions that it is desirable to pay out.

Commissions are then calculated unencumbered without taking the commission cap into consideration. This is referred to as "Unencumbered Pay" – the total commissioning results that would be produced if no cap was in place.

A comparison of Max Pay and Unencumbered Pay values will be undertaken. If the Unencumbered Pay is less than the Max Pay, commissions are paid "as is" without an application of the commission cap being necessary.

If the Unencumbered Pay is greater than the Max Pay, capping of the commissions will be required. To determine what the Adjusted Pay (term for amounts paid after the cap has been applied) for each center is, the following calculation is used.

The Max Pay value is divided by the Unencumbered Pay value. The resulting amount is converted into a whole number by shifting the decimal place two positions to the right. The whole number is then subtracted from "100". The resulting figure is translated into a percentage (called the Capping Factor) – the percentage is the amount that each check for the period must be reduced by in order to have the total payout for the period fall in line with the Max Pay value.

Example – There is $1,000,000 in applicable BCV for the period. 60%, $600,000, is the Max Pay for the period. Unencumbered Pay totals $625,000. To find the Capping Factor, Max Pay is divided by Unencumbered Pay; (600,000 / 625,000) = 0.96. 0.96 shifted two decimal places to the right is 96. 96 is then subtracted from 100 to provide the capping factor; (100 – 96) = 4, or 4%. Each check must be reduced by 4% in order to meet the overall 60% pay out goal.

Commentary: commission caps can come in different forms. For instance, some may not unilaterally reduce commission checks, they may reduce the top earners first and spare a reduction for those with lesser checks. Others may not focus the cap on a specific commission period, but rather grade the total percentage being paid over a number of commission periods.

Application of the commission cap is typically a worse case scenario. Companies generally do not wish to employ the cap – they have a vested interest in putting as much money back into the field as possible in order to maintain a motivated (read: selling) distributor force.

Also refer to the personal commission cap for information on how the global commission cap interrelates to it.

Commission Cap, Personal (Binary) – the Personal Commission Cap ensures that no more than $X is paid to any individual income center during any single Binary commission period.

Earnings for any income center greater than $X are not paid to that income center, but rather are returned to the general commission pool so that funds are available to pay others without the global commission cap being enacted.

The following example assumes that the personal commission cap will be $20,000.

E.g. income center X earns, unencumbered, $30,000 in commissions during a Binary processing. X will be paid $20,000 only. Further, X's unencumbered earnings of $30,000 will not count against the global commission cap. Only the earnings that X was paid, $20,000, will be counted against the global commission cap.

Commentary: Also refer to the global commission cap for a complete understanding of the capping process.

Commissionable Volume (Australian, Breakaway, Matrix, Unilevel) – abbreviated as CV. CV is the value of a product that qualifications and benefits are calculated off of.

E.g., if there was $100 CV present on a level of Downline and the percentage to earn on that level was 10%, the total amount paid on that level would be $10; {(100) (0.10)}.

Commentary: CV is also frequently referred to as BV, Business Volume or Bonus Volume. In almost all instances, CV and BV refer to the exact same thing, commissionable dollars.

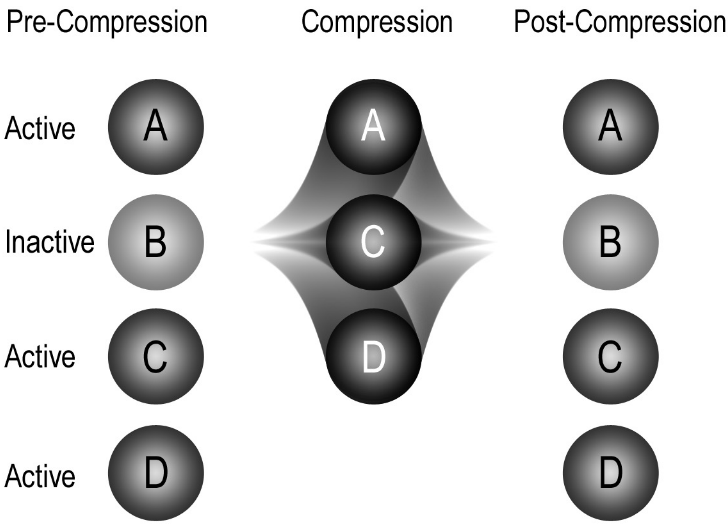
Compression (Australian, Breakaway, Matrix, Unilevel) – refers to the process whereby inactive income centers are temporarily removed from the Downline for the purpose of commission calculations. Active income centers in the Downline then roll up to occupy the positions vacated by the inactive centers. This effectively removes "dead spots" from the organization and makes the most volume available possible to pay commissions on.

The "Active" amount off which compression is triggered is based off PV. In many compensation plans, income centers are considered Active when they have a PV of greater than zero in the current commission period. The PV amount may, however, vary by compensation plan. For instance, "company X" may have an Active threshold of $30 PV.

Compression Example, unlimited width compensation plan – the company counts individuals as inactive only when they have not made a purchase carrying PV of any amount in the current commission period. Within the current commission period, the company has four income centers present: A, B, C and D. A is at the top of the organization. B is placed directly below A. C is placed directly below B. D is placed directly below C.

Focusing on the A position, A is Active and fully qualified to earn commissions. B is inactive. Both C and D are Active. When compression is enacted, B will be temporarily removed from the Downline.

C will roll up to take B's position and D will roll up to take C's position. A will then be paid frontline commissions on C and second level commissions on D. After commission calculations are complete, B will again assume its position and the Downline will return to its pre-commission format.



Compression Example, fixed width compensation plan – Compression is applied on placement sponsorship lineage. When compression is applied to fixed width plans, the act of compression can break the number of frontline positions that is usually maintained.

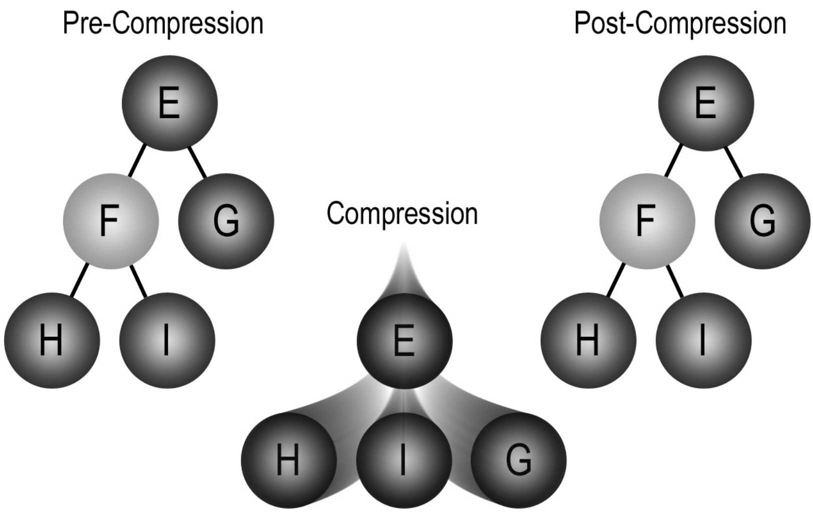
As an example, a company has a leg of Downline containing five income centers: E, F, G, H and I. E is at the top of the organization. F and G are placed directly below E. H and I both reside frontline to F.

Focusing on the E position, E is Active and fully qualified to earn commissions. F is inactive. G, H and I are Active. When compression is enacted, F will be temporarily removed from the Downline.

Both positions frontline to F will roll up to replace F. E will then be paid frontline commissions on G, H and I. After commission calculations are complete, F will again assume its position and the Downline will return to its pre-commission format.

Moving two (or more) centers to take the place of one compressed individual can temporarily, for commission calculation purposes only, break the rules of maximum width that are in place.

If, for instance, this example belonged to a 2 wide Matrix, E would have three people frontline at the time of commissioning – G, H and I. Although this would temporarily break the normal width, it should not affect the overall payout; i.e. the company would not be at risk of breaking its maximum payback threshold, even with the compression taking place.



Compression, fixed width plan

Customer (General) – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions. Customer volume is added to that of the sponsoring income center during commission calculations; customers do not occupy a position in each level of Downline.

E.g, X sponsors income center Y frontline to himself. Y in turn sponsors customer Z. Y purchases $100 CV during the commission period and Z purchases $50 CV during the commission period.

Z's $50 CV will be added to Y's $100 CV, placing $150 CV frontline to X at Y's position. Z is not considered to be second level to X.

Commentary: the norm is for customers to not occupy a position in the Downline. Some companies will have a customer occupy a position in the Downline. In instances where a customer occupies a Downline position, any volume attributable to the customer is paid to the Upline from the occupied position – not through the enrolling sponsor's position.

Cycle (Binary) – the term Cycle refers to complete payment of a Binary commission. Gathering all sales required to earn a full commission and paying upon sales flushed from the accumulated Left and Right totals is referred to as completing a Cycle.

Commentary: refer to the definition of "Step" for additional information; the term Step references incremental payout of a Cycle.

Distributor (General) – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Commentary: some companies permit distributors to have multiple income centers; refer to the "Income Center" and "Primary Income Center" definitions for additional explanation surrounding the distributor concept. That is, the same person can have multiple earning positions within the Downline.

Downline (General) – refers to positions (distributor and customer) in the genealogy below a specific income center in the genealogy.

Enrolling Sponsor (General) – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Commentary: refer to the "Placement Sponsor" definition for a complete understanding of the two sponsoring relationships typically tracked by companies.

Fixed Width Compensation Plan (Binary, Matrix) – a fixed width compensation plan restricts the number of income centers that can fall on any individual's first level of organizational Downline; examples of fixed width compensation plans are Matrix and Binary plan types.

Flushing (Binary) – flushing refers to the process of removing accumulated volume from Left and Right sales teams in a Binary compensation plan. Some companies flush sales only when an income center has been paid commissions on those sales. Under that scenario, flushing is used as a tool to make sure an income center is not paid on the same sale twice.

Other companies will limit the number of sales that an income center can accumulate and flush (remove from consideration) any sales above the prescribed threshold. Under this alternate scenario, flushing is used as a tool to limit the amount of commissions that can be paid by taking away sales before a payment is issued on them.

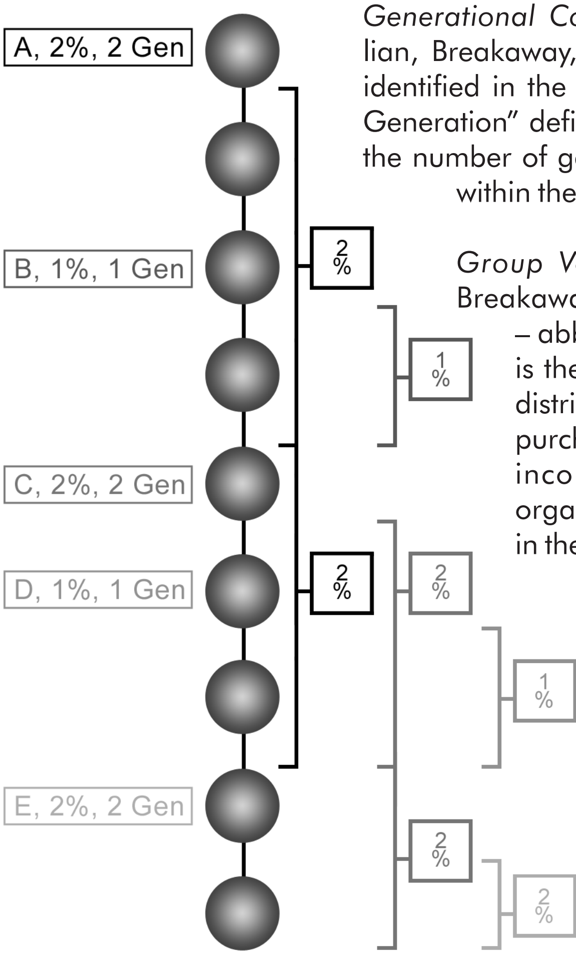
Frontline (General) – refers to an income center's first level of Downline.

Generations…

First Generation (Australian, Breakaway, Matrix) – an individual's first generation is comprised of all income centers in a leg of Downline from its own position, down to but not including, the next inline income center of equal or greater rank.

Commentary: generations are often alternately defined as "down to but not including, the next inline income center of equal rank."

Second Generation (Australian, Breakaway, Matrix) – an individual's second generation is comprised of all income centers in a leg of Downline from its first inline income center of equal or greater rank, down to but not including, the second inline income center of equal or greater rank.



Generational Continuation (Australian, Breakaway, Matrix) – the trend identified in the “First” and “Second Generation” definitions continues for the number of generations identified within the compensation plan.

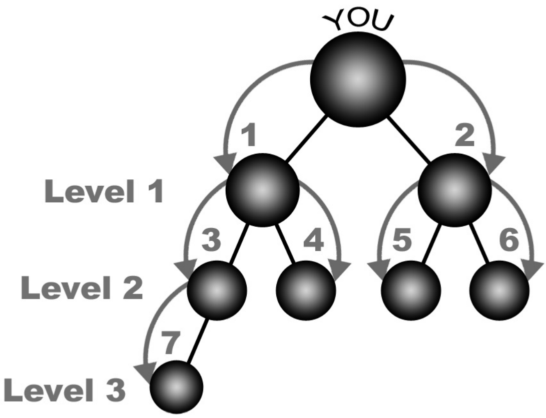
Group Volume (Australian, Breakaway, Matrix, Unilevel) – abbreviated as GV. GV is the sum total CV (both distributor and customer purchases) present in an income center’s entire organizational Downline in the current commission period.

Commentary: GV is sometimes calculated on a portion of Downline instead of the entire Downline. For instance, company X may limit GV to all CV present in an income center’s first 10 levels of Downline.

Income Center (General) – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors, people in the company working the pay plan, may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Commentary: the “Primary Income Center” definition furthers the concept of income centers.

Left to Right/Level by Level Spilling (Binary, Matrix) – LR/LL spilling is the most common spill type for non-Binary, fixed width type pay plans. This spill type works as follows.



When an individual sponsors a new enrollee, the first evaluation performed will be to see if the sponsoring individual’s frontline is full. If the frontline is not full, the new enrollee will be placed there. If the frontline is full, spilling must occur.

The LR/LL spill routine will then evaluate the second level of organizational Downline below the sponsoring individual. If available positions are present, the first position to the farthest outside left on the level will be selected for placement of the new enrollee. If there were no available positions on the second level, it would then move down one level to the third.

This spill type evaluates each level in the same fashion until the next available position is identified by asking the same two basic questions: 1. Are there any positions available on the current level (if not, go down one level)? 2. Once the level with an available position(s) has been identified, what is the first position, starting from the left and moving across the level to the right, which is not occupied?

Commentary: read the “Spilling” definition for a general understanding of the spilling concept.

Level by Level/Leg by Leg Spilling (Matrix) – LL/LL spilling is seen as a more equitable spill type in many Matrices. This spill type works as follows.

When an individual sponsors a new enrollee, the first check will be to see if the sponsoring individual's frontline is full. If the frontline is not full, the new enrollee will be placed there. If the frontline is full, spilling must occur.

The LL/LL spill routine will then evaluate the second level of organizational Downline below the sponsoring individual. If positions are available on that level, the level will be targeted as the one on which the center being spilled should be placed. The first level with available positions is the one on which placement will occur.

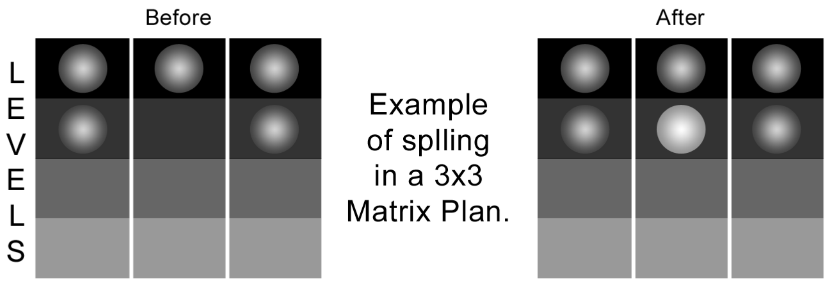
If only one position is available on the level, the center being spilled will be placed there. If, however, there are multiple positions available on the identified level, another series of selection routines must be undertaken in order to decide where the center being spilled should be placed.

The next series of routines will determine which leg on the level the center being spilled should be placed in. To do this, each leg of the level will be checked to see the number of centers within it. The center being spilled will be placed in the leg with the least number of centers.

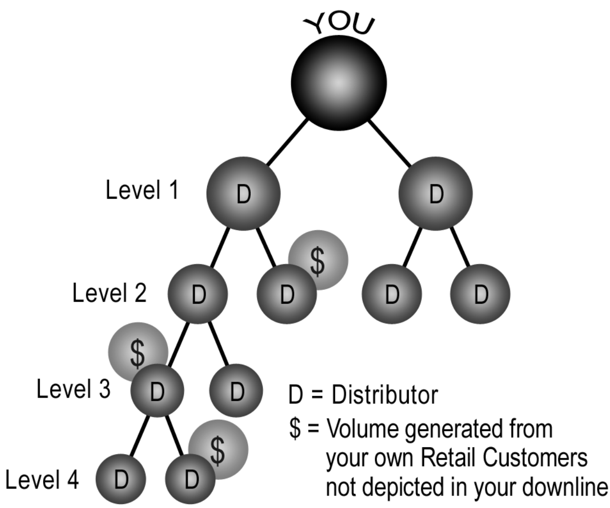
As an example, the level on which to spill the new center is identified within a three wide Matrix. There are three legs of Downline on this level – Leg 1, Leg 2 and Leg 3. Being a three wide Matrix, each leg can have three centers.

Leg 1 has two positions filled in it. Leg 2 has one position filled in it. Leg 3 has two positions filled in it. The center being spilled would be placed in Leg 2, because it is the leg in the level that has the least number of centers. Note: if each leg in the level has the same number of filled positions, the center will be placed in the left most leg.

Commentary: read the "Spilling" definition for a general understanding of the spilling concept. Level by Level, Left to Right and Level by Level, Leg by Leg spill types could be used for any fixed width plan types, however they are almost always used with Matrices and not Binaries.



Levels (General) – Levels refer to layers of Downline. Those income centers that an individual is the placement sponsor of comprise the first level (or frontline). Those placed under one's own frontline comprise the second level and so forth and so on. An income center's own volume is not counted as being in any of its Downline levels. Customer volume is applied to that of its sponsoring income center in order to determine the position/level in the Downline that it falls in.



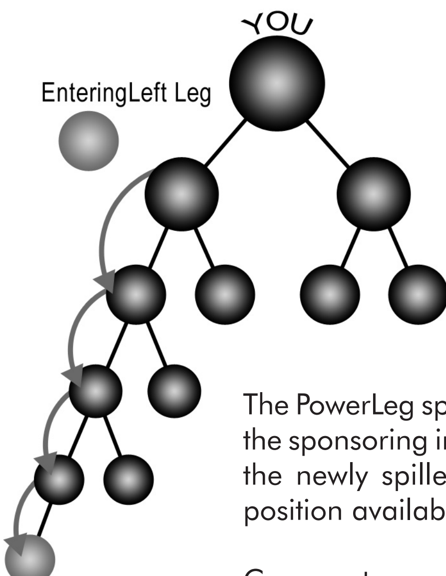
Personal Volume (General) – abbreviated as PV. PV is the sum total CV purchased by a particular income center and that income center's personally sponsored customers in the current commission period.
Placement Sponsor (General) – refers to the income center that is

immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity – especially true in fixed width systems.

Commentary: refer to the “Enrolling Sponsor” definition for a complete understanding of the two sponsorship relationships typically tracked by companies.

PowerLeg Spilling (Binary) – PowerLeg spilling is the standard spill type for Binary pay plans. This spill type works as follows.

Each node/position in a Binary tree has two frontline legs – one “Left” and one “Right”. When an individual is sponsoring a new enrollee into his/her Downline, the individual must choose if the new enrollee should be placed in the Left or Right side of the Downline.



If the immediate frontline position below the individual is filled on the side selected, spilling must occur. The PowerLeg spill type takes the new enrollee and places the new enrollee in the outermost left or right (depending on side selected) position below the sponsoring individual.

The PowerLeg spill type never fills interior legs of the sponsoring individual, but continues to push the newly spilled enrollee into the outermost position available on the left or right side.

Commentary: read the “Spilling” definition for a general understanding of the spilling concept.

Primary Income Center (General) – a primary income center (or “001”) is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or “002”), the third the tertiary (or “003”) and so forth and so on.

Qualification (General) – a condition(s) that must be met to achieve benefits within the compensation plan structure.

Qualified (Binary) – although the term Qualified can appear in many different plan types, this term carries the most significance within Binary pay plans. Qualified is typically the status that income centers must meet in order to accumulate volume and earn commissions within a Binary pay plan. A typical definition of Qualified is as follows:

Qualified status can be met by being personally Activated and sponsoring two other income centers, one Left and one Right, that each achieve Activated status

OR

Qualified status can be met by personally sponsoring three other income centers, minimum of one Left and one Right, that each achieve Activated status.

Commentary: refer to the "Activated" definition for a complete understanding of Qualified status.

Rank (General) – a rank is a name (e.g. Qualified Affiliate, 3 Star President, etc.) that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Spilling (Binary, Matrix) – refers to a mechanism that automatically determines placement sponsor positioning in fixed width compensation plans. Fixed width plans allow a finite number of income center positions on any individual's frontline.
E.g., in a 3 x 7 Matrix, no more than three income centers can be on an individual's frontline.

Once all frontline positions below an individual are filled, any new personal enrollments must be automatically forced into the next available position in the Downline. The rules for determining which position is the "next available" comprise the definition of the spilling type employed.

Commentary: refer to the "PowerLeg Spilling", "Left to Right/Level by Level Spilling" and "Level by Level/Leg by Leg Spilling" definitions for an understanding of the mechanics behind three common spill types.

Step (Binary) – an incremental payout in a Binary pay plan. Many Binary pay plans will award an incremental payout of commissions while distributors work towards achieving a larger commission goal. Paying commission increments in steps helps place money in distributors' hands quickly.

Commentary: refer to the "Cycle" definition for additional information; the term Cycle represents payout of the "larger commission goal".

Title (General) – an income center's title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

Unlimited Width Compensation Plan (Australian, Breakaway, Unilevel) – an unlimited width compensation plan is one that does not restrict the number of income centers that can fall on any individual's first level of organizational Downline; examples of unlimited width compensation plans are Unilevel and Australian plan types.

Upline (General) – refers to positions (distributor) in the genealogy above a specific income center in the genealogy.

Unit Value (Binary) – abbreviated as UV. UV represents the sale/point value that Binary commissions are calculated off of.
E.g., a Binary compensation plan may require 2 sales or points on the weak side and 6 sales or points total in order for someone to earn a step check. The sale or point value is represented by the UV assigned to each product.

Volume Accumulation (Binary) – volume accumulation is a term associated with Binary pay plans. It specifically refers to an income center's eligibility to accumulate (for the purpose of future commission payment) UV associated with products being sold in the Left and Right sales teams.

Different companies have different criteria surrounding eligibility to accumulate volume, however eligibility to accumulate is frequently based off Qualified status (as previously defined).

<u>Bonus Definitions</u>

Structural compensation plan basics usually stay the same from company to company. For instance, if both company X and company Y are 3 x 7 Matrices, you can immediately recognize that they both have a maximum frontline width of 3 and pay a 7 level deep commission.

Understanding X's plan, however, does not necessarily mean that you also understand Y's plan.

This is because compensation plans of the same basic structure can have totally different payouts as a result of the bonuses that they employ. As an example, company X may have a Fast Start bonus whereas company Y may not have a Fast Start, but may employ a Generational bonus.

The good news is that there are generally recognized definitions of how particular bonuses function. As with general definitions, the definition or name of a bonus can vary from company to company. The bonus definitions here are those that are most widely accepted.

While it would be impossible to list every network marketing bonus that has been conceived in a single resource, several of the more common bonus types are listed here. These bonuses can be used with any plan type.

As with the common definitions, the bonus definitions are listed in alphabetical order.

Bonus Pool – bonus pools refer to some type of revenue split and are usually share based. For instance, "each Diamond Director will be eligible to participate in a Diamond Director bonus pool. 5% of the commissionable value for the period will represent the total pool value. Each Diamond Director with less than 5 personally sponsored will receive one share in the pool. Diamond Directors with 5 to 9 personally sponsored will receive two shares and Diamond Directors with 10 or more personally sponsored will receive three shares.

The total shares will then be divided into the total pool amount in order to determine the value of each share. Diamond Directors will then receive that amount times the number of shares that they hold."

Exact parameters of how the bonus pool operates can vary from company to company, however they all operate along these same general lines.

Car Bonus – also known in different variations as "Home Bonus", "Mortgage Bonus", etc. These bonuses are so named because they are intended to represent a monthly car or house payment. This is one of the most straightforward bonuses in MLM.

It is typically paid on rank achievement. I.e. all those achieving the rank of Diamond Director would receive the bonus. These bonuses are typically represented as a flat dollar amount. E.g. earn the rank of Diamond Director and receive a $350 Car Bonus.

Coded Bonus – is named as such because it codes distributors to you for future earning purposes. Although not always the case, usually who someone is coded to does not change; if I am part of your coded group today, I will be tomorrow, the day after, etc.

The actual method of calculating the amount to pay can vary from company to company and coded bonus to coded bonus. Understanding that coding is a way of fixing a group for commissioning purposes is the important concept.

Customer Acquisition Bonus – also referred to as a CAB. This bonus is straightforward, paying on the acquisition of customers or customer sales.

CABs can be a fixed amount or they can represent payment of a percentage of a customer sale to the distributor that introduced the customer to the company's products.

Fast Start – exactly as it sounds, Fast Start Bonuses are intended to provide a distributor with an early reward for putting effort into the company. These bonuses are most often tied to the sale of a particular product.

E.g. for each unit of product X sold, you will receive a $Y Fast Start Bonus.

Generational Bonus – this type of bonus is also typically referred to as a breakaway. It is the lynchpin of the Breakaway plan type, but can be used in other compensation plans as well. It is essential that you read the "Generation" definitions in the "Common Definitions" portion of this document to understand how this bonus works.

Generational Bonuses pay on generations of Downline (refer to the Generation definitions for an understanding of this concept). Distributors will often be able to earn an override on more than one generation of Downline; e.g. "3% on 3 generations".

These bonuses are powerful because they pay to depth. True earning potential in a compensation plan is reached by being able to earn on a large number of levels of Downline.

Infinity Bonus – Infinity Bonuses are often mistaken for Generational Bonuses and vice versa although they are quite different. Based off rank, Generational Bonuses carve out blocks of Downline that percentage overrides can be received on.
Infinity Bonuses on the other hand pay a set percentage from an individual position in the Downline, reducing by any other Infinity eligible income centers encountered until the remaining percentage to be paid out is zero.

E.g. income centers X, Y and Z are all Infinity Bonus eligible and they all reside in the same leg of Downline. X is eligible for a 3% Infinity Bonus, Y 1% and Z 5%.

X will earn 3% on all sales down to the Y position. On encountering Y, X's Infinity Bonus will be reduced from 3% to 2%. This is because X met Y, 3 – 1 = 2.

X will now earn 2% on all sales down to the Z position. Y will also earn 1% on this same section of Downline. In other words, a total of 3% is still being paid, it is just now being split between X and Y.

Both X's and Y's Infinity benefits will cease on encountering the Z position. This is because X's Infinity percentage, 2%, minus Z's percentage, 5%, is less than zero. The same holds true for Y, 1 minus 5 being less than zero.

Z would begin earning 5% on all sales in its Downline until the next Infinity eligible individual was met.

Because Generational and Infinity concepts are often confused, supplemental information on their differences has been provided. Refer to Appendix A for additional analysis on the difference between these two bonuses.

Levels Based Benefits – Levels Based Benefits are the most traditional form of commission or bonus in MLM and found in a large number of Australian, Breakaway, Matrix (Fixed and Expanding Width only) and Unilevel pay plans.

This commission pays a percentage override on the sales volume of Downline distributors. For instance, I may receive a 10% override on all my first level sales volume, 8% on my second level and so forth and so on.

Rebate – Rebates are typically a way of circumventing the rule that distributors should not earn commissions on their own purchases. Rather than paying a commission, companies will offer a rebate on volume when certain thresholds are met.

E.g. $200 in Personal Volume will return a 3% rebate, $500 in Personal Volume a 6% rebate, etc.

Retail/Wholesale Commission – retailing product and service is what MLM is all about. Always remember that an MLM company is a vehicle for selling product and service. The end goal is no different than that of a department store or vending machine – sell product and service.

As a result, retail/wholesale commissions are the core of many compensation plans. This commission simply awards a distributor the difference between the retail and wholesale price of product/service purchased by personally sponsored customers, based on the premise that distributors pay wholesale price for product/service and customers retail.

Chapter 3 – Detailing the Plan Types

This portion of the primer focuses on providing specific information on each plan type: Australian, Binary, Breakaway, Linear/Straight Line, Matrix, Recycling Matrix and Unilevel. Hybrid plans, combinations of different plan types, are also reviewed here.

Information included for each plan type will be a brief synopsis of the plan mechanics, the psychology behind use of a particular plan, pros and cons and, finally, where each plan type is best fit for use.

Australian

Mechanics

Australian plans are unlimited width in nature.

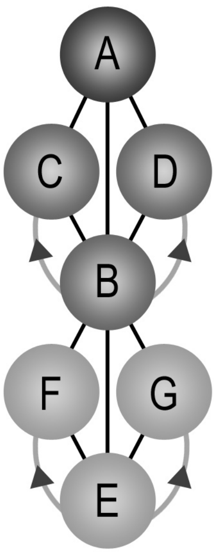
The primary identifying characteristic of Australian compensation plans is their pass up component. Often times you will hear an Australian referred to as a "2 Up", "3 Up", etc. plan. The given number refers to the number of pass ups that will occur.

For instance, in a two up pay plan, your first two personally sponsored would be passed Upline to your enrolling sponsor. Your sponsor would then be the primary beneficiary of the sales efforts of the passed up people.

Those beyond your second personally sponsored – your third, fourth, fifth, etc. personally sponsored – would pass their first two up to you.

As an example, income center B personally sponsors centers C and D. C and D will be passed up to B's sponsor, A.

B then sponsors E. B will retain E and not pass E up. E then sponsors F and G. Both F and G will be passed to B.



This relationship continues on through sponsorship lineage. Not only will F and G be passed to B, F and G's first two personally sponsored will also be passed to B, as will their first two personally sponsored and so forth and so on.

Any other number of bonuses can be added onto the basic Australian structure.

Psychology

The psychology behind an Australian plan is "help your neighbor". In other words, pass your first two, three, etc. (whatever the pass up denominator is) up to your sponsor. In turn, you will receive a greater benefit in the future as you will have the opportunity to receive pass ups from those below you.

Pros and Cons

The pros of an Australian plan are clear.

It should be easier to garner new recruits when you can show them that a mechanism has been put in place to assist them with building their business. Sure, they have to give "X" number of sponsorships up, but they will receive many more pass ups from those that they are able to keep.

The cons of an Australian are present as well.

Australian plans have traditionally faced three key challenges:

1. Most Australian plans are of the 2 Up variety, with 3 Up being the next most prevalent. By the same token, the average MLM distributor will sponsor approximately two to three others during their time with a company. Taking this into consideration, the average MLM distributor will pass his/her people up, then be unable to sponsor any others who will in turn send pass ups to them – leaving the average person with little to no Downline on which to earn commissions.

2. Some distributors became resentful of the company because they passed a “superstar” to the Upline and then received nothing of the equivalent in subsequent pass ups from their Downline.

Note: some Australian plans have attempted to remedy this by providing distributors with a continuing override on those that pass up. Although this has helped to soothe the lost superstar syndrome, the prevailing sentiment is that a distributor would rather be the primary commission beneficiary on a personally sponsored individual than the recipient of a smaller override.

3. To combat (1) and (2) above, “savvy” distributors began sponsoring their dog, cat and parakeet to satisfy the pass up condition, then began sponsoring their superstars. This defeated the very reason for starting an Australian in the first place – to help your neighbor.

Best Fit

Australian compensation plans tend to best fit a company that is committed to training and one that has a lower tier priced product or service as well as an easier recruitment curve.

Training is essential so that the mindset of passing up the dog, cat and parakeet is controlled, if not eliminated. It is also necessary to focus on training in order to enhance the average distributor’s ability to recruit two to three others. If two or three will be passed up, distributors need a solid and duplicable plan for attracting others so that they may build their Downline beyond the one, two or three friends, relatives or neighbors that they can count on to join.

Consideration to the product or service being sold must also be given. As an example, if the primary product being sold costs $1,000, chances are that the number of sales the average – or even better than average – distributor can make is more limited than if the primary product or service is $20.

Similarly, the reluctance to give up others increases as the product or service price does. As the popular sales saying goes, people buy what you sell them, but it is also evident that the available pool of people to sell to decreases as price escalates.

Refer to Appendix B for a sample of an Australian plan compensation analysis. Remember, this is a sample only, bonuses, rank names, etc. could be interchanged – the key to the Australian is its pass up capacity.

<u>Binary</u>

There is no more strongly debated compensation plan in MLM than the Binary, likely because of the unique attributes it has that none of the other compensation plan types do.

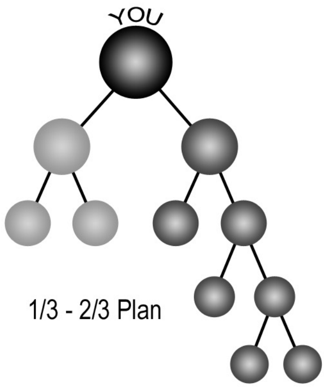
Mechanics

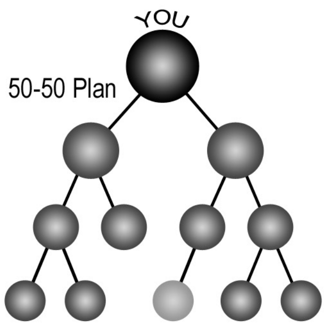
All Binary pay plans are fixed width in nature, limited to no more than two frontline individuals for any income center. One of the two frontline is referred to as the head of the "Left Team" and the other the head of the "Right Team".

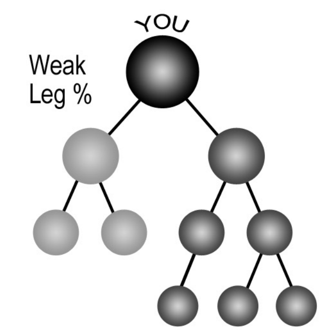
Sales volume is then accumulated between each team to unlimited depth. While the methods of qualifying to accumulate volume can vary slightly from pay plan to pay plan, 95% of Binary compensation plans will pay on accumulated volume in one of the three following fashions:

1. 1/3 – 2/3 Plan; this is the most popular of the Binary payout meth-

odologies. It calls for a prescribed number of sales to be present between both teams, with a minimum of 1/3 of the required volume present in one of the teams. E.g. 9 total sales with a minimum of 3 in one team pays a $50 commission.







2. 50 – 50 Plan; this is the second most popular of the Binary payout methodologies. It also calls for a prescribed number of sales to be present between both teams, however it looks for an equal number of sales between teams. E.g. 10 total sales with a minimum of 5 in each team pays a $50 commission.

3. Weak Leg %; this variation of the Binary pays commissions on a percentage of the sales in the weak leg when a prescribed number of sales are present between both teams. E.g. have 10 total sales between both teams and you will receive 10% of the sales in your weakest leg (Note: weakest leg being the one with the fewest sales present).

Many Binaries also break payment of commissions down into what are referred to as “Steps” and “Cycles”. The term Cycle refers to the payout of a full commission amount. The term Step refers to increments of Cycle payout intended to get money into a distributor’s hands as quickly as possible.

As an example, a company may have a $300 Cycle that pays in three Steps. When 1/3 of the necessary sales have been gathered a $100 payout is issued. When 2/3 of the necessary sales have been gathered a second $100 payout is generated and the final $100 is paid when the remaining 1/3 of the required sales is collected.

Once sales are paid upon, a Cycle has been completed and those sales are removed from a distributor's Left and Right team counts.

Psychology

The psychology behind the Binary is that it offers maximum return on minimal effort. Most Binary pay plans require that you make either two or three sales in order to become Qualified.

Some Binary plans do require recurring qualifiers, but most have a one time qualification – once Qualified you are set to earn commissions in perpetuity moving forward. This is an attractive feature when compared to many other compensation plans that have a large number of recurring qualification requirements.

Pros and Cons

The greatest pro associated with the Binary pay plan is that it pays to depth. True earning potential in a compensation plan is in depth.

Binary pay plans capitalize on this by paying on Left and Right teams – the teams being comprised of everyone below to an unlimited depth. The last sale coming into the system thousands of levels down will reward a distributor with the same commission as the first sale that fell frontline to the distributor.

Many people tout Binary pay plans as the "fairest" of all plan types because they pay on all sales in the Downline.

Another widely recognized pro of the Binary is its ability to quickly reward distributors for their efforts. These plans can quickly build momentum and deliver substantial pay checks in short order.

With pros come cons and there are traditionally two associated with the Binary pay plan:

1. Sustaining Momentum; just as momentum is a pro, sustaining it can also be a con. A significant number of Binary pay plans are dependent upon the sale of a single product. Once that product is purchased, there are no recurring items for a distributor to buy. This means that the plan is reliant on new enrollees to continue making the one time purchase. While Binary plans can "catch fire" quickly, it is important that recruitment continue at a solid pace in order for commissions to be realized on a long term basis.

2. Controlling Payout; because a single sale in a Binary system can pay an unlimited number of people Upline, it is not possible to accurately forecast the exact percentage of commissionable dollars that will be paid out in a Binary. Poorly designed Binary pay plans that routinely paid out more dollars than were available made many wary of this plan type. Several controlling mechanisms have been devised over the years to keep Binary payout in line, from better methodologies for designing these plans to caps that limit overpayment. Although the tools are now available to control Binary pay, the stigma of their past continues to be felt today.

Best Fit

One of the most illustrative terms we have heard to describe the Binary is that it is a "recruiter's paradise". The name of the game in the Binary is recruit, recruit, recruit. If you have leaders that can drive numbers, this pay plan can create substantial commission checks very quickly.

Binary pay plans are also typically better suited to higher ticket items. This is because additional dollars are required in order to support the Binary payout in relation to the number of sales needed to achieve it. Lower ticket items purchased on a recurring basis can be inserted into the pay plan, however frequently are not.

If recurring purchases are not commissioned in the Binary, it is often prudent to utilize a secondary pay plan that will support them. Combining plans is referred to as creating a "Hybrid" and is discussed later in this resource.

Refer to Appendix C for a sample of a Binary plan compensation analysis. Although this is only a sample, it represents how any of the three Binary types would function.

Breakaway

Mechanics

Breakaway plans are traditionally unlimited width in nature as they are a derivative of the Unilevel; these plans are often times referenced as Group Volume Breakaway plans. It is important to note, however, that Breakaway styled bonuses can be added to fixed width pay plans as well.

"Group Volume Breakaway" has historically been used to identify this plan type because the breakaway component would be triggered off the presence of a prescribed amount of group volume. The term Group Volume Breakaway is synonymous with MLM – so much so that its best element, the Breakaway component, has been separated out and proliferated through a number of different compensation plans.

Many companies have realized the power of the Breakaway concept and have begun to build compensation plans around it that do not also utilize Group Volume requirements as the Breakaway catalyst. For that reason, this resource uses the term Breakaway, as opposed to Group Volume Breakaway, to describe this plan type.

The overarching identifying element of the Breakaway plan is the ability to receive a commission override on a group of distributors that have metaphorically separated from an income center's Downline at large.

In reality, no actual separation of the Downline occurs. A "broken away" individual will still hold its same place in the genealogy. Breaking away is a concept that alters the way commissions are paid on the Downline.

For instance, when you achieve the rank of Double Diamond, you may break away from your Upline. This will generally result in you receiving a greater commission for your achievement while your Upline will begin receiving an override, typically percentage based, on your “broken away” sales organization.

Similarly, if a distributor in your Downline breaks away, you would begin receiving an override on that distributor’s Downline (assuming you were of a high enough rank to earn the break away bonus).

The Breakaway component is represented by the “Generation” definitions found in the “Definitions” portion of this resource. The bonus pays on different generations of Downline, each generation defined by the ranks earned by those in the Downline.

E.g. you can receive a 3% bonus down to your first inline Double Diamond in each leg. Generations can change each pay period depending upon who has earned what rank (read: plateau of merit), or they can be fixed from pay period to pay period (fixing from pay period to pay period is typically referred to as coding a group).

In the Group Volume Breakaway variation, ranks earned are dependent upon total (“group”) volume present in one’s entire Downline, or in a prescribed portion of the Downline. Note: many Group Volume Breakaway plans also pay a varying percentage by generation. For instance, 3% on the first generation, 2% on the second, etc.

Psychology

Breakaway plans encourage whet we call “leapfrogging”. This refers to the visual representation of how Breakaway bonuses pay – by achieving a certain rank, you can leapfrog over others and start receiving commission overrides on their expanses of Downline.

Psychologically speaking, this is a powerful concept – why focus on a typical 4, 5, 6, 7, etc. level payout when you can earn overrides on much larger sections of Downline? As previously discussed, true earning potential is in depth, something that is absolutely afforded in a Breakaway plan type.

Pros and Cons

The overwhelming pro of the Breakaway plan type is its ability to pay to depth. Leaders and workers will recognize this – they do not want 4, 5, 6, 7, etc. level earning potential, they want the potential to earn overrides on sales occurring from the top to the bottom of their Downline if they put enough effort into it.

There are two cons that come up with respect to the Breakaway plan type.

First, is the notion that the Breakaway concept is difficult to explain, not for the leader or MLM savant, but rather for the newcomer who is still learning about networking concepts. As a result, some people have questioned the duplicable nature of the plan.

Duplicity is key to success in MLM, however it is very much the bi-product of training. Companies that place effort in training will have fewer duplicity problems than those that do not. A well designed Breakaway plan should be duplicable when coupled with adequate training.

Second, is the misconception that Breakaway plans go against the concept of teamwork and team building. This is the result of the nature of the term "Breakaway" itself – "you mean that I am going to lose someone in my Downline?!?"

Again, this is primarily a training issue. Distributors work hard to build their Downlines and will bristle at the thought of a Downline individual being taken away. It is important to train distributors that Breakaway does not equate to loss, but rather to the opportunity to earn to depth.

Best Fit

Breakaway plans will fit a wide range of products, services and company concepts. This has been proven through the proliferation of the Breakaway concept through so many different compensation plans.

Earlier in this resource, it was revealed that Binary pay plans are typically geared towards higher ticket products and services. Breakaway plans can certainly be used for higher ticket items, but they are frequently employed for lower priced products and services.

The reason is that the Breakaway concept can open up lots of small purchases for someone to be commissioned on. As an example, assume that you are selling long distance phone service. Your first level of Downline has $4 in total volume and each of your next four levels have $3 in total volume available for commissions.

Getting paid only five levels deep in this type pay plan would not be exciting or motivating to the commission conscious individual. Implementing a Breakaway component could, however, open up the volume that you could earn commissions on. Perhaps you qualify to earn two Breakaway generations and these two generations represent 30,000 distributors and $90,000 in volume. Your earning potential, excitement and motivation would increase exponentially as the available sales volume rose.

Refer to Appendix D for a sample of a Breakaway plan compensation analysis. Remember, this is a sample only, bonuses, rank names, etc. could be interchanged – the key to the Breakaway is the method through which it rewards distributors on Downline production.

<u>Hybrid</u>

Hybrid pay plans are increasingly gaining in popularity. They are the continued evolution of compensation plan designers' pursuit to build lucrative pay structures that will reward distributors for their efforts.

Many different hybrid combinations for paying commissions have been devised. Most of these, however not all, share the following characteristics:

1. Each plan will pay on a different schedule. E.g. one plan will pay weekly and the other monthly.

2. The most common hybrid combination is the Binary/Unilevel, with the Binary paying weekly and the Unilevel monthly.

3. Each plan is tracked by a separate genealogy.

Mechanics

Mechanics of Hybrid plans vary according to the individual plan types that comprise the Hybrid. For instance, the mechanics of a Binary/Unilevel would be different than those of a Matrix/Unilevel.

For this reason, it is important that you evaluate each Hybrid plan independently.

Psychology

The psychology behind Hybrid plans can be summed up in one phrase: "best of both worlds." Those that are utilizing Hybrid plans are attempting to appeal to a larger number of distributors by giving them multiple compensation offerings.

Like the mechanics, the psychology of any particular Hybrid plan must be evaluated independent of others.

Binary/Unilevel pay plans, the most common Hybrid type, are based on the psychology of bringing the immediate earning potential of the Binary together with the long term stability of a Unilevel. This combination is best described by the "Hunter and Nurturer" theory.

The Hunter and Nurturer theory is named as such because it targets the basic instincts of people. "Hunters" are ideal for the Binary. Their driving motivation is recruit, recruit, recruit – suiting them well for success within a Binary pay plan.

"Nurturers" are viewed as those that focus on the benefit, use and utility of product and service. This makes them ideal for taking the calmer and more measured approach of explaining and selling the benefits of product. Repeat sales (read: AutoShip) of product and service are essential to the success of a Unilevel.

Pros and Cons

Pros of a Hybrid plan are specific to the type of Hybrid plan selected. The designer of a Hybrid plan will typically have his or her target audience in mind when developing the plan.

As an example, the Binary/Unilevel's intent is to address the needs of both the hunter and the nurturer. Designers that are targeting husband and wife teams as their primary distributor base could fare well with this plan type – one half of the team focusing on the recruiting and the other half the residual sales.

Every Hybrid plan carries the cons of its individual parts. For instance, a Binary/Unilevel carries the cons associated with a Binary and a Unilevel.

The greatest obstacle associated with most Hybrid plans is duplicity. Do you see a trend developing? Duplicity is key, making training paramount.

It can be difficult for any MLM company to educate its distributor base on the compensation plan, a problem that is only compounded when there are multiple compensation plans working in unison. Training is critical for any company using any compensation plan, however it is especially crucial for Hybrid plan types.

Best Fit

Hybrid plans are best fit for a company that is going to take the time and expend the effort to make them work properly. For instance, utilizing a Binary/Unilevel is not a panacea for all of one's compensation woes.

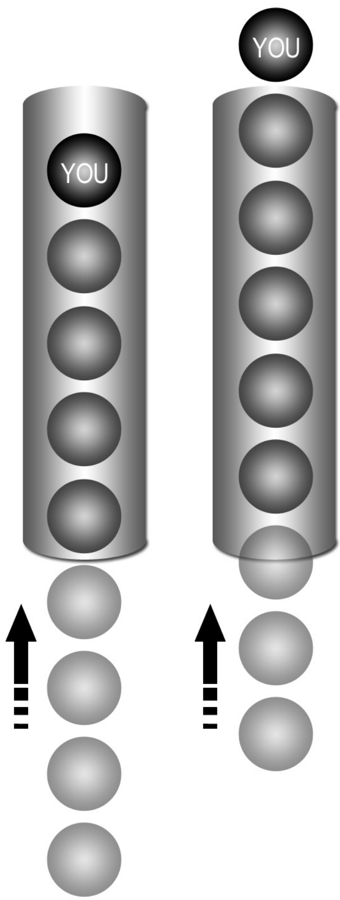
Moving to a Hybrid plan can actually compound the training, reference materials, learning curve, etc. associated with the compensation plan. If, however, a Hybrid plan meets the overarching goals of the company and the company is committed to supporting it, the Hybrid plan can be a perfect fit.

Refer to Appendix E for a sample of a Hybrid plan compensation analysis. The sample provided is for the most common type, a Binary/Unilevel. Remember, the number of potential Hybrid combinations is practically limitless, the Binary/Unilevel is only one type of Hybrid plan.

Linear/Straight Line

Mechanics

Linear plans, sometimes also referred to as Straight Line plans, are one wide Matrices. All distributors within a Linear are placed in one straight leg of Downline.



Issuance of a commission check is dependent upon you gathering a certain number of distributors or sales, whether through personal sponsorship or spillover, directly below you.

Picture the Linear Downline as a tube filled with balls, each distributor/sale (depending on exactly how the Linear is structured) is represented by a ball.

As new distributors/sales come in below your "ball", it pushes you towards the top of the tube. After enough distributors/sales come in below you, your ball is pushed out the top and you receive a commission.

Some Linear plans will then automatically insert you at the bottom of the tube again, but deduct a portion of your commission check for doing so – this will in turn push someone else's ball out of the top. Other Linear plans will require you to make a new purchase in order to secure a new ball at the bottom of the tube. The first option, automatic reinsertion, has traditionally been the most prevalent way for Linear plans to work.

Psychology

These plans are predicated on the psychology that they are easy to work, which may or may not be true depending upon the distributor base's ability to recruit others or make sales of the product/service that the company offers.

Linear plans also tend to be hype oriented – "look how easy it is, join today and the work of others will drive you to the top!" While this sounds like a great recruiting pitch, it should be tempered with reality as well. The simple truth is that it is dangerous to build lethargy in a distributor base. If people don't think they need to do anything to receive a commission check, they won't.

Remember, your company will make its money on the sale of product and service. A motivated distributor base is a necessity if your enterprise is to make sales and, in turn, the compensation plan is to be successful – there are no free lunches!

Pros and Cons

Overwhelmingly, the greatest pro associated with Linear plans is their duplicity. These plans are easy to explain and easy to understand. People readily grasp hold of the tube and ball analogy. Anyone who has been responsible for training within a network marketing company will immediately recognize this advantage.

While duplicity is a great advantage, Linear plans also come with blemishes.

Linear plans were at the height of their popularity around the turn of the millennium. Unfortunately, most were built with an inherent flaw that sullied the name of this plan type. Worse, most companies that wish to utilize a Linear plan want to do so with the flaw intact because it is an attractive marketing point.

The major flaw built into these plans was the "free reentry" mechanism. Free reentry was the term used to describe how distributors could reenter the bottom of the Linear tube after a commission payment. Rather than paying any money out of pocket, a portion of the commission check issued for coming out of the top of the tube was retained for reentry purposes.

On the surface this appears to be a win for all parties. There is no additional cost to distributors and the company receives money out of the commission check.

Initial appearances can be deceiving, and that is certainly the case here. The problem with taking a portion of a commission check for reentry is that no new money is being injected into the company – the company is essentially paying for the reentry out of its own pocket.

That model can only sustain itself when the number of new enrollees/sales exceeds the number of "free" reentries occurring. As soon as reentries eclipse new enrollees/sales, the company's available pool of funds will begin to rapidly diminish. In the worst case scenarios, we have seen entire Linear tubes filled with nothing but free reentries – quickly sending a company to closure.

Many people who wish to launch a Linear will only do so because they view the reentry as key to marketing of the compensation plan; an almost inevitable path to demise. Companies that make a Linear work will have a reentry mechanism or, if the free reentry is a must, a guaranteed (and not yet seen) methodology for ensuring that new enrollments will outstrip reentries.

Best Fit

Linear plans are best suited for companies that place a premium on managing expectations. There is no free lunch in life and 99.9% of people that become involved with a compensation plan will not find a free lunch there either. It's important that prospective distributors understand they will need to put forth effort to earn reward.

Product wise, these plans are best suited for easily saleable products and services because the plans are predicated on moving at a fast pace. For instance, a $1,500 product may not do well in a Linear due to the length of time it will take people to rise to the top of the tube.

This plan is based on creating excitement, so you want to have people popping out of the top of the tube at a regular rate. Simply from this standpoint, it is far more exciting and energizing for a distributor to receive one $40 check a week over the course of five weeks than a single $200 check at the conclusion of the five week period.

Refer to Appendix F for a sample of a Linear plan compensation analysis. The sample Linear provided does not include the flaw previously discussed, although you will likely encounter that flaw if viewing a larger sampling of Linear plans.

Matrix

Mechanics

Matrices can employ any different number of commissions and bonuses, their primary identifying mechanical characteristics are their restricted width nature and spillover.

Width for any particular Matrix can be determined by looking at the first number present in the Matrix description. For instance, a "3 x 7" Matrix indicates a maximum frontline width of three. The second number references the depth of levels based commissions to be paid within the plan.

Spilling is the result of fixed width. Fixed width plans restrict the number of frontline income centers that any individual can have; once the prescribed number of frontline individuals is in place, any additional personally sponsored must be "spilled" into the Downline.

There are a number of different methodologies for spilling distributors into the Downline. The most common spill types are described in the "Common Definitions" portion of this resource.

Psychology

The idea behind the Matrix is to help others build Downlines. In a typical unlimited width plan, all of your personally sponsored would be placed frontline to you. In a fixed width plan, some of your personally sponsored will be placed below others in your Downline to help them build their business. You continue to receive commissions on those that you spill into your Downline.

Psychologically, Matrices provide built in guarantees on what many companies promise, but will not deliver – help building a Downline.

Pros and Cons

Bar none, spillover is the primary pro associated with a Matrix plan. Promises from one distributor to another to help build Downlines are often broken, however the Matrix has built in functionality that guarantees that help will occur whether the Upline elects to give it or not.

The lynchpin of Matrices' greatest strength, restricted width, is also considered to be the plan type's greatest detraction. This is because the number of positions that appear in any one individual's Downline is limited.

As an illustration, picture a 3 x 3 Matrix – three wide with a levels based payment of three deep. This basic structure will allow for only thirty-nine available positions to earn levels based benefits on. If fifteen of these individuals are inactive or leave the company, the levels based earning potential is drastically reduced.

Recognizing this basic problem and how it can affect payout in the compensation plan, a number of methods have been devised by companies to combat it – compression and a variety of bonuses.

Most notable amongst the balancing agents to this con is Matrix expansion. Matrices that employ expansion are called Expanding Matrices. Expansion allows a distributor to increase his or her frontline width, thereby increasing the overall size of the Matrix. The expanded frontline width, and resulting bigger matrix, applies only to the distributor that has earned it. Others in the Downline are permitted to expand their frontline width only as the qualifications necessary to do so are met.

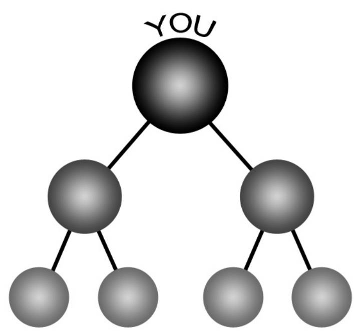
Expansion is an effective tool for debating the argument that Matrices limit earning potential.

Best Fit

Matrices can be outfitted to compliment nearly any product or service. This is a popular plan type that is widespread in MLM.

As with any compensation plan, training is essential. Of particular importance with this plan type is a distributor's recognition and understanding of the fixed width and spilling concepts.

Refer to Appendix G for a sample of a Matrix plan compensation analysis; this particular sample does include expansion. Remember, this is a sample only, bonuses, rank names, etc. could be interchanged – the key to the Breakaway is the method through which it rewards distributors on Downline production.



Recycling Matrix

Mechanics

If you understand the basic mechanics behind a Linear plan, you will also understand the mechanics behind a Recycling Matrix.

Whereas Linear plans require "X" number of distributors/sales in the "tube" below you to earn a commission, the Recycling Matrix requires that you fill a prescribed Matrix structure. The most common form of the Recycling Matrix is the 2 x 2; fill the basic two wide and two deep structure (six sales/distributors), and you will receive a commission.

Just like a Linear, once you have completed the required structure, you receive a new position and can begin filling it – working to receive another commission once it is filled with the prescribed number of distributors/sales.

Unlike a Linear, not all reentries are going into a straight tube. Because of this, any reentries follow their enrolling sponsor into the enrolling sponsor's current non-completed Matrix.

Psychology

The psychology behind a Recycling Matrix is the same as a Linear – fill the basic structure and then continue to earn money on multiple reentries.

As with the Linear, it is important that participants in a Recycling Matrix understand that they will gain reward only by putting forth effort.

Pros and Cons

Pros and cons associated with Recycling Matrices are virtually identical to those associated with a Linear. Also, like the Linear, they were at the height of their popularity around the turn of the millennium. Their strength is in duplicity and the distributor's belief that he or she can be successful within the plan.

Weaknesses include potential lethargy as well as the reentry flaw. Unequivocally, reentry can be the biggest problem for this plan type. Unless you can make the highly unlikely guarantee that recruitment of new enrollees will occur at a faster pace than reentries, there must be some type of mechanism for generating new dollars for the company with each reentry.

Best Fit

Exactly like the Linear, Recycling Matrices are best suited for companies that place a premium on managing expectations. There is no free ride in life and there's certainly no free ride in an MLM compensation plan. It's important that prospective distributors understand they will need to put forth effort to earn reward.

Product wise, these plans are best suited for easily saleable products and services because the plans are predicated on moving at a fast pace. For instance, a $1,500 product may not do well in a Recycling Matrix due to the length of time it will take people to complete their Matrix structure.

This plan is based on creating excitement, so you want to have people completing their Matrices at a regular rate.

Refer to Appendix H for a sample of a Recycling Matrix plan compensation analysis. The sample Recycling Matrix provided does not include the flaw previously discussed, although you will likely encounter that flaw if viewing a larger sampling of Recycling Matrix plans.

<u>Unilevel</u>

Mechanics

Unilevel mechanics are exceedingly easy to summarize – Unilevel pay plans allow an individual to have an unlimited number of income centers frontline.
Beyond that, a Unilevel is essentially rule free. That is, the plan designer is free to add any other qualifications, commissions, bonuses, etc. that he or she wishes to the basic unlimited width frontline structure.

Psychology

The psychology behind the Unilevel is interesting because it is the "granddaddy" of compensation plans. It is the oldest plan type, other compensation plans were developed after and, in some instances in reaction to, the Unilevel.

At the root of the Unilevel is the ability to keep your personally sponsored frontline – there is no spilling or pass ups in a basic Unilevel, your personally sponsored stay with you. Many people, especially those new to MLM, find the Unilevel comforting because of the more traditional approach that it takes; "my people are mine and yours are yours."

Pros and Cons

Especially from a design perspective, Unilevel pay plans carry the benefit of freedom of design. While many pay plans are based off limitations or specific rules that they set, the Unilevel is not. This lack of imposition on structure provides a great deal of latitude for design.

Barring the inclusion of qualifications or bonuses that can be difficult to understand, the Unilevel is easy to comprehend and has a high degree of duplicity. It's quite straightforward for someone to conceptualize their personally sponsored distributors frontline, their frontline's personally sponsored as second level and so forth and so on.

Cons of a Unilevel can be summed up in the phrase "mine is mine and yours is yours." "Networking" is a very apt descriptive term for MLM because success within any MLM business is related to how well you can network and build relationships with others. Some observers view the Unilevel structure as counterproductive because it does not inherently force teamwork within the Downline.
On the surface that is true, however any Unilevel plan can be instilled with team building principles via the qualifications and benefits offered within the compensation structure. As an example, requiring that you have three Emerald Executives in your Downline in order to earn the higher rank of Platinum President will lead you down the path of helping others in your Downline develop their businesses.

Surprisingly, another con that we have heard associated with the Unilevel on several occasions is that they are boring. We believe the true meaning behind this to be that the plan is viewed as "yesterday's news"; i.e. that people are interested in pursuing other compensation plans simply because they are new and different.

If your reason for picking one compensation plan over another is because one is "new and fresh" and the other is "old and stale", you may well be in for trouble. The simple fact of the matter is that compensation plans are only boring when people are not making money in them. A stale or boring compensation plan is likely the reflection of a stale and boring product/service or marketing campaign.

The simplest compensation plan in the world is exciting when the distributor base is invigorated and earning money within it.

Best Fit

Practically any product or service can fit into a Unilevel compensation plan. Because of its freedom of rules, it can also be molded to adhere to nearly any management or marketing style.

Unilevel plans have been commonplace since the inception of network marketing and some of the longest standing plans in the history of MLM have been built on the Unilevel structure. If your course is to follow the tried and true, the Unilevel plan is hard to argue against.

Refer to Appendix I for a sample of a Unilevel plan compensation analysis. Keep in mind that Unilevel pay plans can take on a variety of permeations, from the addition and subtraction of a wide array of bonuses to the metamorphosis of completely different plan types, such as the Australian.

Chapter 4 – Compensation Plan Killers

In the first part of this primer, considerations for building the "right" compensation plan were reviewed. This portion of the primer will review common reasons that compensation plans fail to work for a company. Avoid these pitfalls and your chosen plan will be much better equipped to serve the needs and goals of your company.

Tail Wagging the Dog

The term "tail wagging the dog" is used to refer to a weakness on the part of management to stand up to pressures being exerted by outside sources. MLM is considered the wild west of the sales landscape – it truly is a pioneering arena for sales. For this reason, many solid business people wilt under the pressure of demands from others who tout themselves as super recruiters and MLM stars.

Existence of super recruiters (frequently called "heavy hitters" within the industry) is not a myth, however there are far fewer super recruiters than people who claim to be. If you have experience with network marketing you are likely familiar with scenarios such as the following:

"Mr. X is going to leave the company he's with and join me if I only change A, B and C in the compensation plan! He has been making a million dollars a month and has a 400,000 strong Downline – all of which will come to my company if I only do what he says."

If we had a nickel for every time we have heard a story similar to the one above, we would have long ago retired and been living on the beach. If we had an additional nickel for every time the changes made to appease the "super recruiter" were made, we would likely own that beach as well.

Think about it, if Mr. X was earning a million dollars a month, he has little incentive to leave his current company. Also, even if he did have a 400,000 strong Downline, only a limited number of those people would follow him to a new company – likely only those he had personally recruited, not the entire Downline. Remember, if it sounds too good to be true, it likely is.

Be very wary of those that promise the world if you will, on the spur of the moment, change all the plans that you have worked so hard to put into place. In short, learn to stick to your plan. If you feel that you must make concessions, put the burden of performance on the other party first. E.g. A and B concessions will be made after Mr. X has met certain defined performance indicators.

People Resist Change

Tied very closely to the "tail wagging the dog" phenomena is the fact that people resist change. Whether for good or bad, it is in people's nature to resist change when it comes. That is precisely why, unless circumstances truly merit it, you should see your plan through to fruition.

Many MLM companies have lost momentum and even gone out of business as a result of incessant change. Distributors need consistency, and not just because it is part of human nature to resist change.

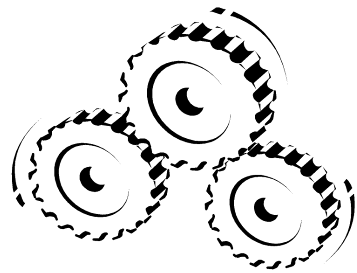
Consistency and duplicity are intertwined. Imagine trying to build a duplicable system for growing your business (printing literature, devising sales presentations, etc.), but with the rules of the business constantly changing. It would be nearly impossible to work under those circumstances because you would continuously be discarding your work and starting over. You would likely do what so many distributors do – move on to a more stable opportunity.

Duplicity is key to success in multilevel. If you take away a distributor's ability to duplicate his or her efforts, you have severely limited that distributor's chance to succeed.

As an example, it is difficult for a distributor to coherently articulate the business opportunity to another prospect when the opportunity constantly changes – this week it's a Binary, next month it's a Unilevel, the following month half of the bonuses have changed, etc. Scenarios like that do occur and they are almost always a signal that the end is near for a company.

KISS

Some people prefer a more politically correct description of the KISS acronym, but we are advocates of the original: "Keep It Simple Stupid". KISS is brutal in its honesty and equally brutal with respect to its inherent truth.



Our personal experience has been in working with MultiSoft, a software vendor, that charges money for programming compensation plans. The more elaborate and difficult the compensation plan, the more MultiSoft makes for programming it.

Naturally, you would think that this would make us an advocate of complicated compensation plans. To the contrary, we are not. In our experience, the most successful compensation plans are those that people can understand and recognize the benefits of quickly. No one wants to be part of something that they do not understand.

Are complicated compensation plans ever embraced? Yes, some are, however simpler plans are better received on the whole. Many multilevel company owners fall into the trap of wanting to "one up" the compensation plans that preceded them. They will want to introduce a new twist, new bonus, etc. in order to portray the image of being fresh and exciting. When doing this, the key is to avoid building something that is beyond the average person's comprehension. Be cautious that fresh and exciting does not morph into confusing and distancing.

Our test for gauging whether or not a compensation plan has exceeded its bounds is simple. Recruiting is a social endeavor and you want to build duplicity into the organization wherever possible. Keeping these two principles in mind, and assuming that the compensation plan meets the other criteria laid out in the "Building a Successful Compensation Plan" portion of this primer, a compensation plan stands a good chance of success if a distributor can take ten minutes or less to present the opportunity to a prospect using nothing more than a pen and the back of a cocktail napkin.

Documents, charts, online presentations and other support materials are wonderful and you should in fact have those in place for formal and extended training purposes. Nothing, however, can replace the simplicity of being able to sit down with another person and quickly open their eyes to an opportunity.

Sales relationships often require "striking while the iron is hot" to be effective. Do not handcuff your distributors in that capacity.

<u>Lack of Volume</u>

The number one killer of any compensation plan, whether it is the best or the worst ever designed, is a lack of sales volume. No matter how attractive a plan looks on paper, it is worthless if there are no sales on which to commission the distributor base.

That fact more than anything else illustrates why management, marketing and sales ability are more important than compensation plans. A solid sales effort can make a pedestrian compensation plan exciting. The opposite is not true; the best compensation plan in the world cannot compensate for a lack of sales.

Consider which you would rather have, a compensation plan that paid back only 10%, but which belonged to a company that generated one million dollars in sales volume for the month, or a compensation plan that paid back 100%, but which belonged to a company that generated ten thousand dollars in sales volume for the month. The answer is obvious, 10% of one million dollars – $100,000 – is far more lucrative than 100% of ten thousand dollars.

When discussing sales volume and compensation plans, the question of how to repeatedly ensure that volume will be present from pay to pay period comes up. Thankfully, the answer to this question is straightforward: introduce an AutoShip program.

AutoShip is a term that references setup of a standing order; an order that the recipient is agreeing to pay for and have shipped to him or her on a defined recurring interval. E.g. once a month, once every two months, etc.

Orders of this nature are a tremendous asset because they can be viewed as “banked income”. Sure, people can cancel an AutoShip order at any time, however most will not. Usually, once people have setup an AutoShip order, they will maintain it for an extended period of time.

Illustration of this point comes through an experience we had with a multilevel company based out of Tampa, FL. That company had a disgruntled distributor who believed that strong arm tactics were the best way to achieve his desired results. As a result, he took legal action against the company (which, as an aside, was eventually dismissed).

This distributor was on AutoShip prior to becoming disgruntled. Amazingly, even as the case meandered through the legal system, the distributor continued to be billed for and accept the product that was part of his AutoShip order. He had not bothered to cancel his AutoShip order even as he was pursuing action against the company!

One interesting additional dynamic that has developed is the compensation plan’s ability to steer distributors towards committing to AutoShip orders. Many companies have begun to offer reduced rank qualifications for those distributors that are committed to an AutoShip order. This has resulted in a number of benefits.

First, the company is encouraging the sale of product. Second, volume is being inserted into the compensation plan on a recurring basis, ensuring that there are commission checks to be paid out. Finally, distributors are able to earn a commission check by meeting less stringent requirements.

Whatever method you choose to employ for injecting volume into the compensation plan, be sure to strategize how you will do so – the health and longevity of the compensation plan, as well as your company, will depend upon it.

Chasing a Trend Can Lead to the End

Like fashion, the popularity of compensation plans tends to be trendy and cyclical. Today's "hot" compensation plan may be the Binary, whereas tomorrow's may be an Australian. Often times, company owners get caught up in chasing the latest trend.

This can be dangerous on several fronts, most notably being that consideration is not given to a plan that will benefit the company's goals. Chasing the compensation plan of the moment, versus crafting a plan to fit needs, leaves companies exposed to selecting an unstable plan.

The most glaring example of this we have been directly involved with was related to the hysteria that accompanied Recycling Matrices when they were originally introduced. Recycling Matrices looked so powerful on paper that many companies simply had to have one. A significant number of these plans, as discussed earlier in this primer, were not soundly constructed or built for the long term.

Several otherwise viable companies were severely hurt or put out of business because they introduced a compensation plan that paid out more than the sales the companies were taking in. Even those that survived the misstep were slow to recover – momentum is magic in multilevel and recapturing it after its lost can be a difficult endeavor.

Although that experience was bad enough, something even more alarming happened – a couple of years after their initial explosion, Recycling Matrices began to see a renaissance. Not improved versions that met the original design's shortcomings, but rather the same basic design that previously had problems.

Suffice to say that a new generation of companies felt the sting that a lack of careful planning, research and knowledge of history can bring.

Safeguarding against “trend selection” is a responsibility that the management team must take seriously. Trends and fads are temporary in nature, be sure you choose a compensation plan that will have staying power and stand the test of time.

Perception as Reality

Perception is often times reality and this certainly holds true with respect to MLM. Recognizing the perception as reality truism is important to understanding how others will view your compensation plan and company on the whole.

A poignant example of this is the commission cap within the Binary pay plan; the cap being a mechanism to ensure that the company does not overpay commissions and go out of business. Caps are put in place to ensure the longevity of the company, not as a penalty to the distributor base. Some companies lose sight of this and apologize in advance for the presence of a cap.

Cases such as that create the reality among the distributor base that the cap is a bad thing because the company has given the perception that it is a liability – something that could possibly take away commissions. The truth, however, is far different than the reality the company has created.

Too many people have been associated with companies that shut their doors, leaving a puzzled and perplexed distributor base behind. This is a disheartening phenomenon for those that have experienced it.

People who have been through one, two, three or even more experiences like this should welcome the introduction of measures such as the commission cap. The cap is there to protect ownership and the distributor base alike by ensuring that an opportunity exists for everyone moving forward. Make introduction of items such as these part of your company's positive reality by generating positive perception around them.

Unequivocally, you are not designing the compensation plan to harm distributors. The compensation plan is the vehicle through which they are rewarded. Your compensation plan is a positive for distributors and you must take care to package it as such. Emphasize the benefits of what you are doing and why so that a positive and healthy reality can be created around the company.

Summary

If this primer has given you a better insight on compensation plans, how they function and how they fit into the landscape of your company on the whole, then you are well on your way to drafting a plan that will serve you and your company's goals to their full capacity.

Although your compensation plan is a focal point of your company, it should not be the focal point around which the company is built. Carefully consider each item within the "Building a Successful Compensation Plan" portion of this primer when constructing your plan. The proposed plan must complement all the other core areas to be successful in its implementation.

Always follow the guiding principle that you are in the business of selling product, not compensation plans. Your compensation plan is in place to serve the purpose of selling product. Never take the approach that you are selling product to serve a compensation plan.

Design of an effective compensation plan is not difficult when a holistic approach is taken. Consider all the core facets when building your plan and you too will be able to build a winner.

If you would like help with the design of a new compensation plan, review of an existing compensation plan, additional information on compensation plans or simply assistance with MLM in general, contact MultiSoft Corporation at:

Tel: 239 945-6433
Fax: 239 945-6230

Email: peter@multisoft.com

Foreword on Appendices

The compensation plan and bonus examples contained within these appendices are not based off of any existing company's plan, product, method or idea.

Several elements of the compensation plans and bonuses contained herein are used by many different companies. It is important to understand that the information provided here is for illustration and explanation purposes only and was not designed with any particular product or company in mind.

Development of a compensation plan that will serve your company well is better achieved by following the principles outlined in this primer than picking a plan out of a book.

Compensation plan materials provided are intended for instructional and development (programming) purposes. These are not documents that have been approved by an attorney for general public use or display.

With that understanding, you are welcome to use any of the materials presented here at your own discretion. For additional information on constructing a compensation plan that will benefit your company, please contact:

MultiSoft Corporation at 239 945-6433

Appendix A

Infinity vs. Generational Bonus

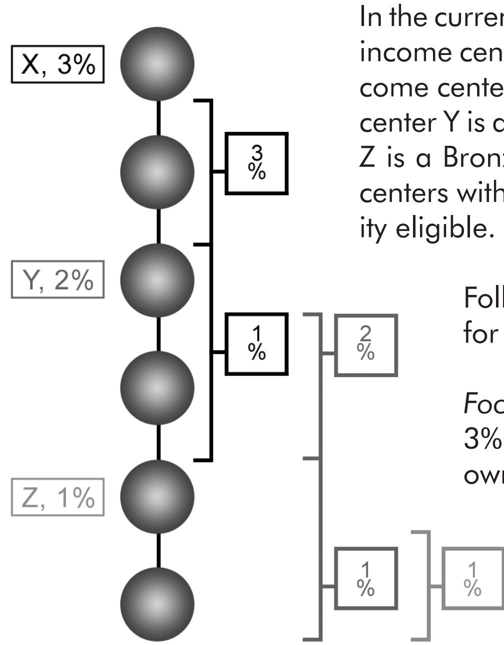
Following is an explanation of the Infinity and Generational Bonuses.

Infinity

Definition – an Infinity bonus pays an income center the Infinity percentage commensurate with the rank earned throughout each leg of the income center's Downline, reducing by any other Infinity percentages encountered until the total percentage left to be paid out is zero.

Example

Company X has three ranks that earn Infinity Bonuses, "Bronze", "Silver" and "Gold". Bronze income centers earn a 1% Infinity Bonus. Silver income centers earn a 2% Infinity Bonus. Gold income centers earn a 3% Infinity Bonus.



In the current commission period, three income centers are Infinity eligible. Income center X is a Gold (3%). Income center Y is a Silver (2%). Income center Z is a Bronze (1%). No other income centers within the genealogy are Infinity eligible.

Following is how the Downline for Company X is configured:

Focusing on X... X will receive 3% on all CV present below its own position down to, but not including Y.

When X encounters Y, X's

percentage (3%) is reduced by Y's percentage (2%), 3 – 2 = 1. X will now earn 1% on Y and continue earning 1% Downline.

When X encounters Z, X's remaining percentage (1%) is reduced by Z's percentage (1%), 1 – 1 = 0. At 0%, X is no longer Infinity eligible. X's Infinity benefits will end immediately prior to the Z position.

Focusing on Y… Y will receive 2% on all CV present below its own position down to, but not including Z.

When Y encounters Z, Y's percentage (2%) is reduced by Z's percentage (1%), 2 – 1 = 1. Y will now earn 1% on Z and continue earning 1% Downline.

Focusing on Z… Z will receive 1% on all CV present below its own position.

Generational

Definition – Generational Bonuses are paid on sections of Downline as defined by rank. Following are definitions of how each "section", or generation, are determined:

First Generation – an income center's first generation is comprised of all income centers in a leg of Downline from its own position, down to but not including, the next inline income center of equal or greater rank.

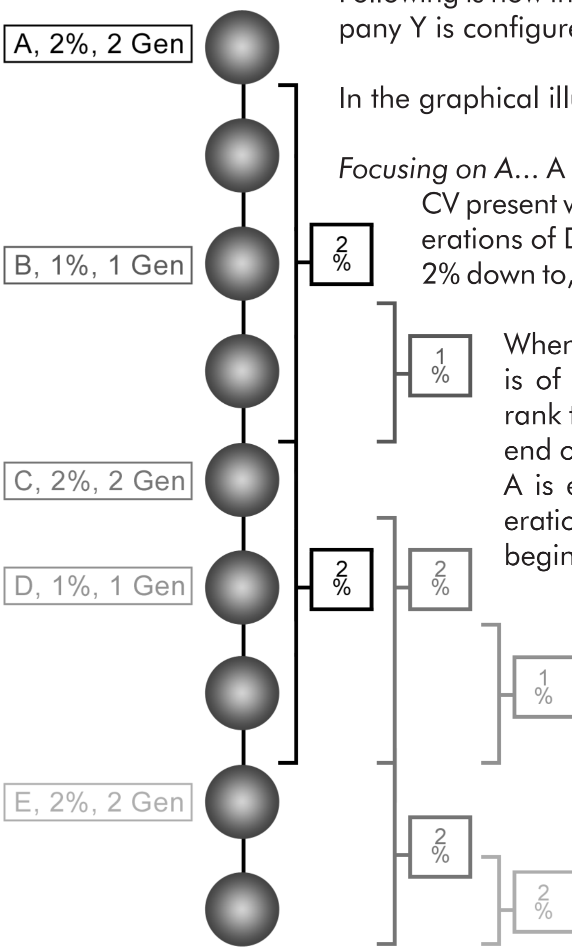
Second Generation – an income center's second generation is comprised of all income centers in a leg of Downline from its first inline income center of equal or greater rank, down to but not including, the second inline income center of equal or greater rank.

Generational Continuation – the trend identified in the "First" and "Second Generation" definitions continues for the number of generations identified within the compensation plan.

Example

Company Y has two ranks that earn Generational Bonuses, "Diamond" and "Platinum". Diamond income centers earn 1% on one generation of Downline. Platinum income centers earn 2% on two generations of Downline.

In the current commission period, five income centers are eligible for Generational Bonuses. Income centers A, C and E are Platinum (2%, 2 Generations). Income centers B and D are Diamond (1%, 1 Generation). No other income centers within the genealogy are Generational Bonus eligible.



Following is how the Downline for Company Y is configured:

In the graphical illustration shown...

Focusing on A... A will receive 2% on all CV present within its first two generations of Downline. A receives 2% down to, but not including, C.

When A encounters C, C is of an equal or greater rank than A – marking the end of A's first generation. A is eligible for two generations, so the bonus will begin paying A 2% on C and below.

A will receive an additional 2% down, but not including, E.

When A encounters E, E is of an equal or greater rank than A – marking the end of A's second generation. A is eligible for two generations only, so A's Generational Bonus benefits will cease immediately prior to the E position.

Focusing on B… B will receive 1% on all CV present within its first generation of Downline. B receives 1% down to, but not including, C.

When B encounters C, C is of an equal or greater rank than B – marking the end of B's first generation. B is eligible for one generation only, so B's Generational Bonus benefits will cease immediately prior to the C position.

Focusing on C… C will receive 2% on all CV present within its first two generations of Downline. C receives 2% down to, but not including, E.

When C encounters E, E is of an equal or greater rank than C – marking the end of C's first generation. C is eligible for two generations, so the bonus will begin paying C 2% on E and below.

There are no other ranks higher than or equal to C below E. C will receive 2% to the end of the Downline.

Focusing on D… D will receive 1% on all CV present within its first generation of Downline. D receives 1% down to, but not including, E.

When D encounters E, E is of an equal or greater rank than D – marking the end of D's first generation. D is eligible for one generation only, so D's Generational Bonus benefits will cease immediately prior to the E position.

Focusing on E… E will receive 2% on all CV present within its first two generations of Downline. There are no other ranks higher than or equal to E below its own position. E will receive 2% to the end of the Downline.

Appendix B

Sample Australian Compensation Analysis

This compensation plan is a 2 Up Australian plan.

All commissions are calculated on the same schedule, “monthly”. I.e. there are not multiple commission processing schedules such as weekly and monthly.

Definitions

Distributor – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Income Center – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Primary Income Center – a primary income center (or “001”) is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or “002”), the third the tertiary (or “003”) and so forth and so on.

Customer – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions. Customer volume is added to that of the sponsoring income center during commission calculations; customers do not occupy a position in each level of Downline.

E.g, X sponsors income center Y frontline to himself. Y in turn sponsors customer Z. Y purchases $100 CV during the commission period and Z purchases $50 CV during the commission period.

Z's $50 CV will be added to Y's $100 CV, placing $150 CV frontline to X at Y's position. Z is not considered to be second level to X.

Placement Sponsor – refers to the income center that is immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity.

Enrolling Sponsor – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Downline – refers to positions (distributor and customer) in the genealogy below a specific income center in the genealogy.

Upline – refers to positions (distributor) in the genealogy above a specific income center in the genealogy.

Levels – Levels refer to layers of Downline. Those income centers that an individual is the placement sponsor of comprise the first level (or frontline). Those placed under one's own frontline comprise the second level and so forth and so on. An income center's own volume is not counted as being in any of its Downline levels. Customer volume is applied to that of its sponsoring income center in order to determine the position/level in the Downline that it falls in.

Frontline – refers to an income center's first level of Downline.

Unlimited Width Compensation Plan – an unlimited width compensation plan is one that does not restrict the number of income centers that can fall on any distributor's first level of organizational Downline; this compensation plan is an example of an unlimited width type.

Compression – refers to the process whereby inactive income centers are temporarily removed from the Downline for the purpose of commission calculations. Active income centers in the Downline then roll up to occupy the positions vacated by the inactive centers.

This effectively removes "dead spots" from the organization and makes the most volume available possible to pay commissions on.

The "Active" amount off which compression is triggered is based off PV. Within this compensation plan, income centers are considered Active when they have a PV of greater than zero in the current commission period.

Compression Example – the company counts individuals as inactive only when they have not made a purchase carrying PV of any amount in the current commission period. Within the current commission period, the company has four income centers present: A, B, C and D. A is at the top of the organization. B is placed directly below A. C is placed directly below B. D is placed directly below C.

Focusing on the A position, A is Active and fully qualified to earn commissions. B is inactive. Both C and D are Active. When compression is enacted, B will be temporarily removed from the Downline.

C will roll up to take B's position and D will roll up to take C's position. A will then be paid frontline commissions on C and second level commissions on D. After commission calculations are complete, B will again assume its position and the Downline will return to its pre-commission format.

Rank – a rank is a name that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Title – an income center's title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

CV – Commissionable Value or Commissionable Volume.

CV is the value of a product that qualifications and benefits are calculated off of. For instance, if there was $100 CV present on a level of Downline and the percentage to earn on that level was 10%, the total amount paid on that level would be $10; {(100) (0.10)}.

PV – stands for Personal Volume. PV is the sum total CV purchased by a particular income center and that income center's personally sponsored customers in the current commission period.

Active – an income center is considered Active when it has greater than zero PV in the current monthly commission period.

GV – stands for Group Volume. GV is the sum total CV (both distributor and customer purchases) present in an income center's entire organizational Downline in the current monthly commission period.

TV – stands for Total Volume. TV is the sum total CV (both distributor and customer purchases) present in the current commission period between an income center's personally sponsored customers and distributors.

2 Up Mechanics

This compensation plan requires that the first two income centers an individual personally sponsors be passed to the Upline. Specifically, the first two income centers that an individual personally sponsors will be passed to that individual's enrolling sponsor.

Additionally, those that were passed up will also pass their first two personally sponsored to their newly assigned placement/enrolling sponsor.

As an example, income center B personally sponsors C and D. B must pass both C and D to his enrolling sponsor, A.

C then personally sponsors E and F, both of which C must pass to A – remember, A is now counted as C's sponsor as a result of the earlier pass up. D personally sponsors G, H and I. D's first two sponsorships, G and H, will be passed up to A, however D will be permitted to retain I – I's first two personally sponsored would be passed to D.

Pass ups do not occur until the time of commission processing. Once a pass up occurs, the passed up individual will be permanently coded to its new placement/enrolling sponsor and the new sponsor will receive the according benefits for which he or she is eligible during commission processing.

Commissions

TV Bonus

This bonus will be paid independent of the ranking structure.

Each monthly commission period, 10% of the company wide CV accrued during the period will be set aside.

The ten income centers with the greatest amount of TV for the period will be set aside. Total TV between these ten income centers will then be summed. Sum TV of the ten income centers will then be divided into 10% of the companywide CV.

The resulting amount will result in a "share value". Each dollar of TV held by the top ten income centers will be counted as one share – each of the top ten income centers will receive the share value for each dollar of TV held.

E.g. There is $1,000,000 CV in the current monthly commission period. 10% of $1,000,000 is $100,000… the total TV Bonus value.

A, B, C, D, E, F, G, H, I and J represent the top ten TV producers for the period. A has $75,000 TV, B has $35,000 TV, C has $35,000 TV, D has $20,000 TV, E has $15,000 TV, F has $12,000 TV, G has $11,000 TV, H has $10,000 TV, I has $9,000 TV and J has $6,000 TV.

Total TV for the period between these ten income centers is $228,000. $100,000, the total TV bonus amount, is then divided by $228,000 to determine the share value. This would result in a per share value of $0.44.

Each of the top ten TV income centers will then receive $0.44 per $1 of TV accrued in the current monthly commission period.

A will be awarded a $33,000 bonus (75,000 * .44). B and C will each be awarded a $15,400 bonus (35,000 * .44). D will be awarded an $8,800 bonus (20,000 * .44). E will be awarded a $6,600 bonus (15,000 * .44). F will be awarded a $5,280 bonus (12,000 * .44). G will be awarded a $4,840 bonus (11,000 * .44). H will be awarded a $4,400 bonus (10,000 * .44). I will be awarded a $3,960 bonus (9,000 * .44) and J will be awarded a $2,640 bonus (6,000 * .44).

<u>Associate</u>

This is the default rank in the compensation plan.

Qualifications – None (be in good standing with the company)

Benefits – Associates will receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Associates will receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

<u>Junior Associate</u>

Qualifications – the following condition must be met in order to achieve this rank:

Condition 1 – have passed one of the required two to the Upline

Benefits – Junior Associates will receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Junior Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Senior Associate

Qualifications – the following condition must be met in order to achieve this rank:

Condition 1 – have completed passing two to the Upline

Benefits – Senior Associates will receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Senior Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Senior Associates receive the following benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV

Executive

Qualifications – the following conditions must be met in order to achieve this rank:

Condition 1 – have completed passing two to the Upline

Condition 2 – have a minimum of $500 GV in the current monthly commission period

Benefits – Executives will receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Executives receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Executives receive the following benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV
Level 4 – 5% of CV
Level 5 – 5% of CV
Level 6 – 5% of CV
Level 7 – 5% of CV

<u>Senior Executive</u>

Qualifications – the following conditions must be met in order to achieve this rank:

Condition 1 – have completed passing two to the Upline

Condition 2 – have a minimum of $5,000 GV in the current monthly commission period

Condition 3 – have a minimum of three personally sponsored income centers achieve the rank of Executive or higher in the current monthly commission period; Note: those that an income center has passed to the Upline do not count as personal sponsorships, however those received as pass ups from the Downline do count as personal sponsorships

Benefits – Senior Executives will receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Senior Executives receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Senior Executives receive the following benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV
Level 4 – 5% of CV
Level 5 – 5% of CV
Level 6 – 5% of CV
Level 7 – 5% of CV

Benefit 3 – Senior Executive Bonus Pool – each monthly commission period, 20% of the company wide CV will be set aside as the total Senior Executive Bonus Pool amount. Each income center that achieves the rank of Senior Executive will receive an equal split of the pool.

E.g. Total CV for the current monthly commission period is $1,000,000. 20% of $1,000,000 is $200,000.

20 income centers achieve the rank of Senior Executive in the current monthly commission period. Each will receive an equal portion of the $200,000… $10,000 apiece.

<u>Presidential Executive</u>

Qualifications – the following conditions must be met in order to achieve this rank:

Condition 1 – have completed passing two to the Upline

Condition 2 – have a minimum of $50,000 GV in the current monthly commission period

Condition 3 – have a minimum of three personally sponsored income centers achieve the rank of Senior Executive or higher in the current monthly commission period; Note: those that an income center has passed to the Upline do not count as personal sponsorships, however those received as pass ups from the Downline do count as personal sponsorships.

Benefits – Presidential Executives will receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Presidential Executives receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Presidential Executives receive the following benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV
Level 4 – 5% of CV
Level 5 – 5% of CV
Level 6 – 5% of CV
Level 7 – 5% of CV

Benefit 3 – Presidential Executive Bonus Pool – each monthly commission period, 10% of the company wide CV will be set aside as the total Presidential Executive Bonus Pool amount. Each income center that achieves the rank of Presidential Executive will receive an equal split of the pool.

E.g. Total CV for the current monthly commission period is $1,000,000. 10% of $1,000,000 is $100,000.

2 income centers achieve the rank of Presidential Executive in the current monthly commission period. Each will receive an equal portion of the $100,000… $50,000 apiece.

Appendix C

Sample Binary Compensation Analysis

This compensation plan is a 1/3 – 2/3 Binary plan.

All commissions are calculated on the same schedule, "weekly". I.e. there are not multiple commission processing schedules such as weekly and monthly.

Definitions

Distributor – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Income Center – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Primary Income Center – a primary income center (or "001") is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or "002"), the third the tertiary (or "003") and so forth and so on.

Customer – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions. Customer volume is added to that of the sponsoring income center during commission calculations; customers do not occupy a position in each level of Downline.

Placement Sponsor – refers to the income center that is immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity – especially true in fixed width systems, such as this Binary.

Enrolling Sponsor – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match and frequently will not in a Binary. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Downline – refers to positions (distributor and customer) in the genealogy below a specific income center in the genealogy.

Upline – refers to positions (distributor) in the genealogy above a specific income center in the genealogy.

Levels – Levels refer to layers of Downline. Those income centers that an individual is the placement sponsor of comprise the first level (or frontline). Those placed under one's own frontline comprise the second level and so forth and so on. An income center's own volume is not counted as being in any of its Downline levels. Customer volume is applied to that of its sponsoring income center in order to determine the position/level in the Downline that it falls in.

Frontline – refers to an income center's first level of Downline.

Fixed Width Compensation Plan – a fixed width compensation plan restricts the number of income centers that can fall on any distributor's first level of organizational Downline; this Binary is an example of a fixed width plan, no more than two income centers can fall on any individual's frontline.

Spilling – refers to a mechanism that automatically determines placement sponsor positioning in fixed width compensation plans. Fixed width plans allow a finite number of income center positions on any individual's frontline. E.g., in a Binary, no more than two income centers can be on an individual's frontline.

Once all frontline positions below an individual are filled, any new personal enrollments must be automatically forced into the next available position in the Downline. The rules for determining which position is the "next available" comprise the definition of the spilling type employed.

PowerLeg Spilling (Binary) – PowerLeg spilling is the standard spill type for Binary type pay plans. This spill type works as follows.

Each node/position in a Binary tree has two frontline legs – one "Left" and one "Right". When an individual is sponsoring a new enrollee into his/her Downline, the individual must choose if the new enrollee should be placed in the Left or Right side of the Downline.

If the immediate frontline position below the individual is filled on the side selected, spilling must occur. The PowerLeg spill type takes the new enrollee and places the new enrollee in the outermost left or right (depending on side selected) position below the sponsoring individual.

The PowerLeg spill type never fills interior legs of the sponsoring individual, but continues to push the newly spilled enrollee into the outermost position available on the left or right side.

Commission Cap – a commission cap ensures that no more than X% (variable percentage determined by company) of the total BCV invoiced for a commission period is paid out during that period's commission calculations. Following is an example of how a commission cap works. This example is based off 60% of the BCV being the most that a company would want to pay out during a commission run.

This commission cap will ensure that no more than 60% of the BCV associated with invoices belonging to the current commission period is paid out during a Binary commission processing. Note: only products with BCV that are found on invoices with a date inside the current Binary commission period will count towards the cap.

The mechanics of the cap are as follows. At the start of the commission run, 60% of the BCV for the current Binary commission period will be calculated. The resulting figure is referred to as the "Max Pay" – the maximum amount of commissions that it is desirable to pay out.
Commissions are then calculated unencumbered without taking the commission cap into consideration. This is referred to as "Unencumbered Pay" – the total commissioning results that would be

produced if no cap was in place.

The software will then compare the Max Pay and Unencumbered Pay values. If the Unencumbered Pay is less than the Max Pay, commissions are paid “as is” without an application of the commission cap being necessary.

If the Unencumbered Pay is greater than the Max Pay, capping of the commissions will be required. To calculate what the Adjusted Pay (term for amounts paid after the cap has been applied) for each center is, the following calculation is used.

The Max Pay value is divided by the Unencumbered Pay value. The resulting amount is converted into a whole number by shifting the decimal place two positions to the right. The whole number is then subtracted from “100”. The resulting figure is translated into a percentage (called the Capping Factor) – the percentage is the amount that each check for the period must be reduced by in order to have the total payout for the period fall in line with the Max Pay value.

Example – There is $1,000,000 in applicable BCV for the period. 60%, $600,000, is the Max Pay for the period. Unencumbered Pay totals $625,000. To find the Capping Factor, Max Pay is divided by Unencumbered Pay; (600,000 / 625,000) = 0.96. 0.96 shifted two decimal places to the right is 96. 96 is then subtracted from 100 to provide the capping factor; (100 – 96) = 4, or 4%. Each check must be reduced by 4% in order to meet the overall 60% pay out goal.
Personal Commission Cap – the Personal Commission Cap ensures that no more than $20,000 is paid to any individual income center during any single Binary commission period.

Earnings for any income center greater than $20,000 are not paid to that income center, but rather are returned to the general commission pools so that funds are available to pay others without the global commission cap being enacted.
E.g. income center X earns, unencumbered, $30,000 in commissions during a Binary processing. X will be paid $20,000 only. Further, X’s unencumbered earnings of $30,000 will not count against the global commission cap. Only the earnings that X was paid, $20,000, will be counted against the global commission cap.

Rank – a rank is a name that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Title – an income center's title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

UV – stands for Unit Value. UV represents the sale/point value that Binary commissions are calculated off of.

E.g., a Binary compensation plan may require 2 sales or points on the weak side and 6 sales or points total in order for someone to earn a step check. The sale or point value is represented by the UV assigned to each product.

BCV – stands for Binary Commissionable Value or Binary Commissionable Volume.

BCV will be the value of a product to count against the commission cap. During Binary commission processing, the system will tally the BCV on all invoices that have BCV. If the commission processing calculates company wide earnings totaling more than X% (designated cap percentage; maximum payback) of the sum total BCV present on all invoices for the period, capping of commissions will be necessary.

Activated – an income center is considered Activated when it has personally purchased a Binary Activation product; refer to the "Product Management" portion of this document for additional information on Binary Activation products.

Qualified – an income center is considered Qualified when it has met one of the following two conditions:

Condition 1 – personally met Activated status and personally sponsored two income centers, each of whom have also met Activated status (one of the personally sponsored must be placed in the Left team and the other in the Right team)

OR

Condition 2 – personally sponsored three income centers, each of which has met Activated status (at least one of the personally sponsored must be placed in the Left team and one in the Right team)

Product Management

Administrators will be able to demarcate certain products as Binary Activation products. When an income center purchases a Binary Activation product, it will be considered Activated.

Activated is important with respect to Qualified status, the meeting of which is necessary to earn commissions. Refer to the "Definitions" portion of this document for additional information on Activated and Qualified statuses.

Commissions

<u>Volume Accumulation</u>

All income centers will be permitted to retain accumulated Left and Right sales volume within their first 30 days in the system (grace period). If an income center has not met Qualified status at the conclusion of the grace period, all accumulated Left and Right volume for that income center will be flushed.

Non-Qualified income centers that are not in their grace period will not be permitted to retain accumulated sales volume. Accumulated sales volume may be retained only by those that are Qualified or in a grace period.

<u>Flushing</u>

Accumulated Left and Right sales volume will be flushed under two scenarios only.

1. If an income center is exiting its grace period and has not yet met Qualified status, all accumulated sales volume will be flushed.

2. If an income center is awarded a commission on accumulated sales, the accumulated sales on which the income center was paid will be flushed from the Left and Right counts.

Note: Accumulated sales that result in a greater than $20,000 commission will also be flushed… an income center is being "paid" on these sales although the overall value of the check is limited to $20,000.

<u>Associate</u>

This is the default rank in the compensation plan.

Qualifications – None (be in good standing with the company)

Benefits – Associates receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current weekly commission period

<u>Qualified Associate</u>

Qualifications – the following condition must be met in order to achieve this rank:

Condition 1 – have met Qualified status

Benefits – Qualified Associates will receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Qualified Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current weekly commission period

Benefit 2 – Quick Start Bonus – income centers that achieve the rank of Qualified Associate within their first 30 days in the system will receive a one time $100 Quick Start Bonus

Benefit 3 – Step/Cycle Commissions – Qualified Associates will receive the following Step/Cycle benefits on UV accumulated in their Downline:

Step 1 –	6 sales (UV) with a minimum of 2 sales (UV) on the weak side =	$50
Step 2 –	12 sales (UV) with a minimum of 4 sales (UV) on the weak side =	$100
Step 3 –	24 sales (UV) with a minimum of 8 sales (UV) on the weak side =	$200
	Maximum* Cycle Value =	$350

* = actual cycle value may be reduced due to capping

Note: step sales are cumulative within a cycle; e.g. the 6 sales required to hit Step 1 will count towards the 12 sales needed for Step 2. Paid upon sales are not flushed from the Left and Right counts until a Cycle has been completed.

Appendix D

Sample Breakaway Compensation Analysis

This compensation plan is a Breakaway plan.

All commissions are calculated on the same schedule, "monthly". I.e. there are not multiple commission processing schedules such as weekly and monthly.

Definitions

Distributor – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Income Center – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Primary Income Center – a primary income center (or "001") is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or "002"), the third the tertiary (or "003") and so forth and so on.

Customer – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions. Customer volume is added to that of the sponsoring income center during commission calculations; customers do not occupy a position in each level of Downline.

E.g, X sponsors income center Y frontline to himself. Y in turn sponsors customer Z. Y purchases $100 CV during the commission period and Z purchases $50 CV during the commission period.

Z's $50 CV will be added to Y's $100 CV, placing $150 CV frontline to X at Y's position. Z is not considered to be second level to X.

Placement Sponsor – refers to the income center that is immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity.

Enrolling Sponsor – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Downline – refers to positions (distributor and customer) in the genealogy below a specific income center in the genealogy.

Upline – refers to positions (distributor) in the genealogy above a specific income center in the genealogy.

Levels – Levels refer to layers of Downline. Those income centers that an individual is the placement sponsor of comprise the first level (or frontline). Those placed under one's own frontline comprise the second level and so forth and so on. An income center's own volume is not counted as being in any of its Downline levels. Customer volume is applied to that of its sponsoring income center in order to determine the position/level in the Downline that it falls in.

Frontline – refers to an income center's first level of Downline.

Unlimited Width Compensation Plan – an unlimited width compensation plan is one that does not restrict the number of income centers that can fall on any distributor's first level of organizational Downline; this compensation plan is an example of an unlimited width type.

Compression – refers to the process whereby inactive income centers are temporarily removed from the Downline for the purpose of commission calculations. Active income centers in the Downline then roll up to occupy the positions vacated by the inactive centers.

This effectively removes "dead spots" from the organization and makes the most volume available possible to pay commissions on.

The "Active" amount off which compression is triggered is based off PV. Within this compensation plan, income centers are considered Active when they have a PV of greater than zero in the current commission period.

Compression Example – the company counts individuals as inactive only when they have not made a purchase carrying PV of any amount in the current commission period. Within the current commission period, the company has four income centers present: A, B, C and D. A is at the top of the organization. B is placed directly below A. C is placed directly below B. D is placed directly below C.

Focusing on the A position, A is Active and fully qualified to earn commissions. B is inactive. Both C and D are Active. When compression is enacted, B will be temporarily removed from the Downline.

C will roll up to take B's position and D will roll up to take C's position. A will then be paid frontline commissions on C and second level commissions on D. After commission calculations are complete, B will again assume its position and the Downline will return to its pre-commission format.

First Generation – an income center's first generation is comprised of all income centers in a leg of Downline from its own position, down to but not including, the next inline income center of equal or greater rank.

Second Generation – an income center's second generation is comprised of all income centers in a leg of Downline from its first inline income center of equal rank, down to but not including, the second inline income center of equal or greater rank.

Generational Continuation – the trend identified in the "First" and "Second Generation" definitions continues for the number of generations identified.

Rank – a rank is a name that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Title – an income center's title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

CV – stands for Commissionable Value or Commissionable Volume.

CV is the value of a product that qualifications and benefits are calculated off of. For instance, if there was $100 CV present on a level of Downline and the percentage to earn on that level was 10%, the total amount paid on that level would be $10; {(100) (0.10)}.

PV – stands for Personal Volume. PV is the sum total CV purchased by a particular income center and that income center's personally sponsored customers in the current monthly commission period.

APV – stands for AutoShip Personal Volume. APV is the sum total CV purchased via an AutoShip order by a particular income center and that income center's personally sponsored customers in the current monthly commission period. Note: all APV counts towards the PV tally by default.

Commissions

<u>Associate</u>

This is the default rank in the compensation plan.
Qualifications – None (be in good standing with the company)
Benefits – Associates receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Bronze Associate

Qualifications – the following condition must be met in order to earn this rank:

Condition 1 – have a minimum of $60 PV OR $40 APV in the current monthly commission period

Benefits – Bronze Associates receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Bronze Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Bronze Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV

Silver Associate

Qualifications – the following conditions must be met in order to earn this rank:

Condition 1 – have a minimum of $120 PV OR $80 APV in the current monthly commission period
Condition 2 – have a minimum of 3 personally sponsored that earn the rank of Bronze Associate or higher in the current monthly commission period; Note: the sponsorships do not need to occur in the current monthly commission period, the rank only need to have been earned in the current monthly period

Benefits – Silver Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Silver Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Silver Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV

Benefit 3 – Generational Bonus – Silver Associates receive a 5% override on all CV present within their first generation of Downline

<u>Gold Associate</u>

Qualifications – the following conditions must be met in order to earn this rank:

Condition 1 – have a minimum of $240 PV OR $160 APV in the current monthly commission period

Condition 2 – have a minimum of 6 personally sponsored that earn the rank of Silver Associate or higher in the current monthly commission period; Note: the sponsorships do not need to occur in the current monthly commission period, the rank only need to have been earned in the current monthly period

Benefits – Gold Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Gold Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Gold Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV

Benefit 3 – Generational Bonus – Gold Associates receive a 5% override on all CV present within their first and second generations of Downline

Platinum Associate

Qualifications – the following conditions must be met in order to earn this rank:

Condition 1 – have a minimum of $480 PV OR $320 APV in the current monthly commission period

Condition 2 – have a minimum of 9 personally sponsored that earn the rank of Gold Associate or higher in the current monthly commission period; Note: the sponsorships do not need to occur in the current monthly commission period, the rank only need to have been earned in the current monthly period

Benefits – Platinum Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Platinum Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Platinum Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV

Benefit 3 – Generational Bonus – Gold Associates receive a 5% override on all CV present within their first, second and third generations of Downline

Appendix E

Sample Hybrid (Binary/Unilevel) Compensation Analysis

This compensation plan is a Binary/Unilevel plan.

Commissions are calculated on two schedules, “weekly” and “monthly”. Binary commissions are calculated weekly and Unilevel commissions are calculated monthly.

Definitions

Distributor – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Income Center – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Primary Income Center – a primary income center (or “001”) is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or “002”), the third the tertiary (or “003”) and so forth and so on.

Customer – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions. Customer volume is added to that of the sponsoring income center during commission calculations; customers do not occupy a position in each level of Downline.

E.g, X sponsors income center Y frontline to himself. Y in turn sponsors customer Z. Y purchases $100 CV during the commission period and Z purchases $50 CV during the commission period.

Z's $50 CV will be added to Y's $100 CV, placing $150 CV frontline to X at Y's position. Z is not considered to be second level to X.

Placement Sponsor – refers to the income center that is immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity – especially true in fixed width systems, such as the Binary portion of this Hybrid plan.

Enrolling Sponsor – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Downline – refers to positions (distributor and customer) in the genealogy below a specific income center in the genealogy.

Upline – refers to positions (distributor) in the genealogy above a specific income center in the genealogy.

Levels – Levels refer to layers of Downline. The Binary genealogy is built by placement sponsorship. Within the Binary, the first level will be those one is the placement sponsor of, the second level those that the first level individuals are the placement sponsor or and so forth and so on. Within the Unilevel, the first level will be those one is the enrolling sponsor of, the second level those enrolled by the first and so forth and so on.

Frontline – refers to an income center's first level of Downline.

Fixed Width Compensation Plan – a fixed width compensation plan restricts the number of income centers that can fall on any distributor's first level of organizational Downline; the Binary plan is an example of a fixed width type.

Unlimited Width Compensation Plan – an unlimited width compensation plan is one that does not restrict the number of income centers that can fall on any distributor's first level of organizational Downline; the Unilevel plan is an example of an unlimited width type.

Spilling – refers to a mechanism that automatically determines placement sponsor positioning in fixed width compensation plans. Fixed width plans allow a finite number of income center positions on any individual's frontline.

E.g., in a Binary, no more than two income centers can be on an individual's frontline.

Once all frontline positions below an individual are filled, any new personal enrollments must be automatically forced into the next available position in the Downline. The rules for determining which position is the "next available" comprise the definition of the spilling type employed.

Note: spilling applies exclusively to the Binary pay plan; spilling is not part of the Unilevel.

PowerLEG Spilling – PowerLEG spilling will be used within the Binary. This spill type works as follows.

Each node/position in a Binary tree has two frontline legs – one "Left" and one "Right". When an individual is sponsoring a new enrollee into his/her Downline, the individuals have to choose if the new enrollee should be placed in the left or right side of the Downline.

If the immediate frontline position below the individual is filled on the side selected, spilling must occur. The PowerLEG spill type takes the new enrollee and places the new enrollee in the outermost left or right (depending on side selected) position below the sponsoring individual.

The PowerLEG spill type never fills interior legs of the sponsoring individual, but continues to push the newly spilled enrollee into the outermost position available on the left or right side.

Compression – refers to the process whereby inactive income centers are temporarily removed from the Downline for the purpose of commission calculations. Active income centers in the Downline then roll up to occupy the positions vacated by the inactive centers. This effectively removes "dead spots" from the organization and

makes the most volume available possible to pay commissions on.

The "Active" amount off which compression is triggered is based off PV. Within this compensation plan, income centers are considered Active when they have a PV of greater than zero in the current commission period.

Compression Example – the company counts individuals as inactive only when they have not made a purchase carrying PV of any amount in the current commission period. Within the current commission period, the company has four income centers present: A, B, C and D. A is at the top of the organization. B is placed directly below A. C is placed directly below B. D is placed directly below C.

Focusing on the A position, A is Active and fully qualified to earn commissions. B is inactive. Both C and D are Active. When compression is enacted, B will be temporarily removed from the Downline.

C will roll up to take B's position and D will roll up to take C's position. A will then be paid frontline commissions on C and second level commissions on D. After commission calculations are complete, B will again assume its position and the Downline will return to its pre-commission format.

Note: compression is not applicable to Binary compensation plans and will be used by the Unilevel only.

C*ommission Cap* – a commission cap ensures that no more than X% (variable percentage determined by company) of the total BCV invoiced for a commission period is paid out during that period's commission calculations. Following is an example of how a commission cap works. This example is based off 60% of the BCV being the most that a company would want to pay out during a commission run.

This commission cap will ensure that no more than 60% of the BCV associated with invoices belonging to the current commission period is paid out during a Binary commission processing. Note: only products with BCV that are found on invoices with a date inside the current Binary commission period will count towards the cap.

The mechanics of the cap are as follows. At the start of the commission run, 60% of the BCV for the current Binary commission period will be calculated. The resulting figure is referred to as the "Max Pay" – the maximum amount of commissions that it is desirable to pay out.

Commissions are then calculated unencumbered without taking the commission cap into consideration. This is referred to as "Unencumbered Pay" – the total commissioning results that would be produced if no cap was in place.

The software will then compare the Max Pay and Unencumbered Pay values. If the Unencumbered Pay is less than the Max Pay, commissions are paid "as is" without an application of the commission cap being necessary.

If the Unencumbered Pay is greater than the Max Pay, capping of the commissions will be required. To calculate what the Adjusted Pay (term for amounts paid after the cap has been applied) for each center is, the following calculation is used.

The Max Pay value is divided by the Unencumbered Pay value. The resulting amount is converted into a whole number by shifting the decimal place two positions to the right. The whole number is then subtracted from "100". The resulting figure is translated into a percentage (called the Capping Factor) – the percentage is the amount that each check for the period must be reduced by in order to have the total payout for the period fall in line with the Max Pay value.

Example – There is $1,000,000 in applicable BCV for the period. 60%, $600,000, is the Max Pay for the period. Unencumbered Pay totals $625,000. To find the Capping Factor, Max Pay is divided by Unencumbered Pay; (600,000 / 625,000) = 0.96. 0.96 shifted two decimal places to the right is 96. 96 is then subtracted from 100 to provide the capping factor; (100 – 96) = 4, or 4%. Each check must be reduced by 4% in order to meet the overall 60% pay out goal.
Note: the commission cap is applicable to the Binary pay plan only, it will not apply to the Unilevel.

Personal Commission Cap – the Personal Commission Cap ensures that no more than $20,000 is paid to any individual income center during any single Binary commission period.

Earnings for any income center greater than $20,000 are not paid to that income center, but rather are returned to the general commission pool so that funds are available to pay others without the global commission cap being enacted.

E.g. income center X earns, unencumbered, $30,000 in commissions during a Binary processing. X will be paid $20,000 only. Further, X's unencumbered earnings of $30,000 will not count against the global commission cap. Only the earnings that X was paid, $20,000, will be counted against the global commission cap.

Note: the personal commission cap is applicable to the Binary pay plan only, it will not apply to the Unilevel.

Rank – a rank is a name that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Title – an income center's title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

UV – stands for Unit Value. UV represents the sale/point value that Binary commissions are calculated off of.

E.g., a Binary compensation plan may require 2 sales or points on the weak side and 6 sales or points total in order for someone to earn a step check. The sale or point value is represented by the UV assigned to each product.

BCV – stands for Binary Commissionable Value or Binary Commissionable Volume.

BCV will be the value of a product to count against the commission cap. During Binary commission processing, the system will tally the BCV on all invoices that have BCV. If the commission processing calculates company wide earnings totaling more than X% (designated cap percentage; maximum payback) of the sum total BCV present on all invoices for the period, capping of commissions will be necessary.

CV – stands for Commissionable Value or Commissionable Volume.

CV is the value of a product that Unilevel qualifications and benefits are calculated off of. For instance, if there was $100 Unilevel CV present on a level of Downline and the percentage to earn on that level was 10%, the total amount paid on that level would be $10; {(100) (0.10)}.

PV – stands for Personal Volume. PV is the sum total CV purchased by a particular income center and that income center's personally sponsored customers in the current commission period.

Active – income centers are considered Active when they have greater than zero PV in the current monthly commission period.

GV – stands for Group Volume. GV is the sum total CV (both distributor and customer purchases) present in an income center's entire organizational Downline in the current monthly commission period.

Activated – an income center is considered Activated when it has personally purchased a Binary Activation product; refer to the "Product Management" portion of this document for additional information on Binary Activation products.

Qualified – an income center is considered Qualified when it has met one of the following two conditions:
Condition 1 – personally met Activated status and personally sponsored two income centers, each of whom have also met Activated status (one of the personally sponsored must be placed in the Left team and the other in the Right team)

OR

Condition 2 – personally sponsored three income centers, each of which has met Activated status (at least one of the personally sponsored must be placed in the Left team and one in the Right team)

Genealogies

The Binary genealogy will be built off placement sponsorship while the Unilevel genealogy will be built off enrolling sponsorship.

Product Management

Administrators will be able to demarcate certain products as Binary Activation products. When an income center purchases a Binary Activation product, it will be considered Activated.

Activated is important with respect to Qualified status, the meeting of which is necessary to earn commissions. Refer to the "Definitions" portion of this document for additional information on Activated and Qualified statuses.

Commissions

Binary (Weekly)

Volume Accumulation
All income centers will be permitted to retain accumulated Left and Right sales volume within their first 30 days in the system (grace period). If an income center has not met Qualified status at the conclusion of the grace period, all accumulated Left and Right volume for that income center will be flushed.

Non-Qualified income centers that are not in their grace period will not be permitted to retain accumulated sales volume. Accumulated sales volume may be retained only by those that are Qualified or in a grace period.

Flushing

Accumulated Left and Right sales volume will be flushed only two scenarios only:

1. If an income center is exiting its grace period and has not yet met Qualified status, all accumulated sales volume will be flushed.

2. If an income center is awarded a commission on accumulated sales, the accumulated sales on which the income center was paid will be flushed from the Left and Right counts.

Note: Accumulated sales that result in a greater than $20,000 commission will also be flushed… an income center is being "paid" on these sales although the overall value of the check is limited to $20,000.

Associate

This is the default rank in the Binary compensation plan.

Qualifications – None (be in good standing with the company)

Benefits – None
Qualified Associate

Qualifications – the following condition must be met in order to achieve this rank:

Condition 1 – have met Qualified status
Benefits – Qualified Associates will receive the following benefit:

Benefit 1 – Step/Cycle Commissions – Qualified Associates will receive the following Step/Cycle benefits on UV accumulated in their Downline:

Step 1 – 6 sales (UV) with a minimum of 2 sales (UV) on the weak side = ... $50
Step 2 – 12 sales (UV) with a minimum of 4 sales (UV) on the weak side = ... $100

Step 3 – 24 sales (UV) with a minimum of 8 sales (UV) on the weak side = ... $200
Maximum* Cycle Value = ... $350

* = actual cycle value may be reduced due to capping

Note: step sales are cumulative within a cycle; e.g. the 6 sales required to hit Step 1 will count towards the 12 sales needed for Step 2. Paid upon sales are not flushed from the Left and Right counts until a Cycle has been completed.

Unilevel (Monthly)

Associate

This is the default rank in the Unilevel compensation plan.

Qualifications – None (be in good standing with the company)

Benefits – Associates receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Ruby Associate

Qualifications – the following qualification must be met in order to achieve this rank:
Condition 1 – have met Active status in the current monthly commission period
Benefits – Ruby Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Ruby Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Ruby Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 8% of CV
Level 2 – 8% of CV
Level 3 – 8% of CV

Emerald Associate

Qualifications – the following qualifications must be met in order to achieve this rank:

Condition 1 – have met Active status in the current monthly commission period

Condition 2 – have a minimum of $5,000 GV in the current monthly commission period

Benefits – Emerald Associates receive the following benefits:
Benefit 1 – Retail/Wholesale Bonus – Emerald Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Emerald Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 8% of CV
Level 2 – 8% of CV
Level 3 – 8% of CV
Level 4 – 8% of CV
Level 5 – 8% of CV
Level 6 – 8% of CV
Diamond Associate

Qualifications – the following qualifications must be met in order to achieve this rank:

Condition 1 – have met Active status in the current monthly commission period

Condition 2 – have a minimum of $25,000 GV in the current monthly commission period

Benefits – Diamond Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Diamond Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Benefits – Diamond Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 8% of CV
Level 2 – 8% of CV
Level 3 – 8% of CV
Level 4 – 8% of CV
Level 5 – 8% of CV
Level 6 – 8% of CV
Level 7 – 8% of CV
Level 8 – 8% of CV
Level 9 – 8% of CV

Benefit 3 – Diamond Car Bonus – Diamond Associates will receive a $500 each and every month that they achieve the Diamond rank

Appendix F

Sample Linear Compensation Analysis

This compensation plan is a Linear plan.

All commissions are calculated on the same schedule, "weekly". I.e. there are not multiple commission processing schedules such as weekly and monthly.

Definitions

Distributor – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Income Center – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Primary Income Center – a primary income center (or "001") is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or "002"), the third the tertiary (or "003") and so forth and so on.

Customer – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions. Customer volume will count towards commissions for distributors.

Placement Sponsor – refers to the income center that is immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity and frequently will not be in a Linear plan.

Enrolling Sponsor – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Rank – a rank is a name that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Title – an income center's title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

CV – stands for Commissionable Value or Commissionable Volume, also referred to as Linear Sale Value.

CV represents the number of sales that will be placed into the Linear tube for commissioning. E.g. if a product sold had CV of "2", 2 sales would be inserted into the Linear tube, causing two income centers at the top of the tube to exit and receive commissions.

PV – stands for Personal Volume. PV is the sum total CV purchased by a particular income center and that income center's personally sponsored customers in the current commission period.

Commissions

<u>Retail/Wholesale Commissions</u>

Any distributor that is in good standing with the company is eligible to receive the difference between the retail and wholesale price of product purchased by personally sponsored customers in the current weekly commission period.

Linear Commissions

Linear commissions are best represented by the concept of a tube filled with balls. When a distributor either personally purchases or has a customer personally purchase a product carrying CV, the distributor's name is inserted into the bottom of the tube directly below the last distributor to enter the tube. The CV tied to the new sale is inserted into the tube at the distributor position.

When a distributor has a minimum of 350 CV below him/her in the tube, the distributor is pushed out of the top of the tube and receives a $40 commission.

A distributor may enter the tube as many times and as often as he/she likes by making purchases (personal) or sales (to customers) that drive new CV into the tube.

Appendix G

Sample Matrix Compensation Analysis

This compensation plan is a 3 x 7 Expanding Matrix plan. Income centers that meet prescribed criteria may expand from a 3 x 7 Matrix to a 5 x 7 Matrix.

All commissions are calculated on the same schedule, “monthly”. I.e. there are not multiple commission processing schedules such as weekly and monthly.

Definitions

Distributor – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Income Center – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Primary Income Center – a primary income center (or “001”) is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or “002”), the third the tertiary (or “003”) and so forth and so on.

Customer – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions. Customer volume is added to that of the sponsoring income center during commission calculations; customers do not occupy a position in each level of Downline.

E.g, X sponsors income center Y frontline to himself. Y in turn sponsors customer Z. Y purchases $100 CV during the commission period and Z purchases $50 CV during the commission period.

Z's $50 CV will be added to Y's $100 CV, placing $150 CV frontline to X at Y's position. Z is not considered to be second level to X.

Placement Sponsor – refers to the income center that is immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity.

Enrolling Sponsor – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Downline – refers to positions (distributor and customer) in the genealogy below a specific income center in the genealogy.

Upline – refers to positions (distributor) in the genealogy above a specific income center in the genealogy.

Levels – Levels refer to layers of Downline. Those income centers that an individual is the placement sponsor of comprise the first level (or frontline). Those placed under one's own frontline comprise the second level and so forth and so on. An income center's own volume is not counted as being in any of its Downline levels. Customer volume is applied to that of its sponsoring income center in order to determine the position/level in the Downline that it falls in.

Frontline – refers to an income center's first level of Downline.

Fixed Width Compensation Plan – a fixed width compensation plan restricts the number of income centers that can fall on any distributor's first level of organizational Downline; this Matrix is an example of a fixed width plan type.

Spilling – refers to a mechanism that automatically determines placement sponsor positioning in fixed width compensation plans. Fixed width plans allow a finite number of income center positions on any individual's frontline. E.g., in a 3 x 7 Matrix, no more than three income centers can be on an individual's frontline.

Once all frontline positions below an individual are filled, any new personal enrollments must be automatically forced into the next available position in the Downline. The rules for determining which position is the "next available" comprise the definition of the spilling type employed.

Left to Right/Level by Level Spilling – LR/LL spilling is the spill type that will be used by this compensation plan. This spill type works as follows.

When an individual sponsors a new enrollee, the first check will be to see if the sponsoring individual's frontline is full. If the frontline is not full, the new enrollee will be placed there. If the frontline is full, spilling must occur.

The LR/LL spill routine will then evaluate the second level of organizational Downline below the sponsoring individual. If available positions are present, the first position to the farthest outside left on the level will be selected for placement of the new enrollee. If there were no available positions on the second level, it would then move down one level to the third.

This spill type evaluates each level in the same fashion until the next available position is identified by asking the same two basic questions: 1. Are there any positions available on the current level (if not, go down one level)? 2. Once the level with an available position(s) has been identified, what is the first position, starting from the left and moving across the level to the right, which is not occupied?

Compression – refers to the process whereby inactive income centers are temporarily removed from the Downline for the purpose of commission calculations. Active income centers in the Downline then roll up to occupy the positions vacated by the inactive centers. This effectively removes "dead spots" from the organization and

makes the most volume available possible to pay commissions on.

The “Active” amount off which compression is triggered is based off PV. Within this compensation plan, income centers are considered Active when they have a PV of greater than zero in the current commission period.

Compression Example – Compression is applied on placement sponsorship lineage. When compression is applied to fixed width plans, the act of compression can break the number of frontline positions that is usually maintained.

As an example, the Sample Company has another leg of Downline containing four income centers: E, F, G and H. E is at the top of the organization. F is placed directly below E. G and H both reside frontline to F.

Focusing on the E position, E is Active and fully qualified to earn commissions. F is inactive. Both G and H are Active. When compression is enacted, F will be temporarily removed from the Downline.

Both positions frontline to F will roll up to replace F. E will then be paid frontline commissions on both G and H. After commission calculations are complete, F will again assume its position and the Downline will return to its pre-commission format.

Moving two (or more) centers to take the place of one compressed individual can temporarily, for commission calculation purposes only, break the rules of maximum width that are in place.

Rank – a rank is a name that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Title – an income center’s title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

CV – stands for Commissionable Value or Commissionable Volume.

CV is the value of a product that qualifications and benefits are calculated off of. For instance, if there was $100 CV present on a level of Downline and the percentage to earn on that level was 10%, the total amount paid on that level would be $10; {(100) (0.10)}.

PV – stands for Personal Volume. PV is the sum total CV purchased by a particular income center and that income center's personally sponsored customers in the current commission period.

Active – income centers are considered Active when they have greater than zero PV in the current monthly commission period.

Matrix Expansion

An income center that has filled its first 3 levels of Downline will be eligible to expand from a 3 wide to a 4 wide width. Once an income center's first 3 levels are filled, the income center's next personal sponsorship will start a fourth leg of Downline. The fourth leg may not be started from spillover, only from personal sponsorship.

An income center that has filled its first 5 levels of Downline will be eligible to expand from a 4 wide to a 5 wide width. Once an income center's first 5 levels are filled (5 levels including the expanded leg if present), the income center's next personal sponsorship will start a fifth leg of Downline. The fifth leg may not be started from spillover, only from personal sponsorship.

No expansion beyond the fifth leg may occur for any income center.

Commissions

<u>Associate</u>

This is the default rank in the compensation plan.

Qualifications – None (be in good standing with the company)

Benefits – Associates receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Active Associate

Qualifications – the following condition must be met to achieve this rank:

Condition 1 – have met Active status in the current monthly commission period

Benefits – Active Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Active Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Commissions – Active Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 5% of CV
Level 2 – 5% of CV

1 Star Associate

Qualifications – the following conditions must be met to achieve this rank:

Condition 1 – have met Active status in the current monthly commission period

Condition 2 – have a minimum of 1 personally sponsored income center that has met Active status in the current monthly commission period; the income center may have been sponsored in any commission period, it only needs to have met Active status in the current period

Benefits – 1 Star Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – 1 Star Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Commissions – 1 Star Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 5% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV
Level 4 – 5% of CV

<u>3 Star Associate</u>

Qualifications – the following conditions must be met to achieve this rank:

Condition 1 – have met Active status in the current monthly commission period
Condition 2 – have a minimum of 3 personally sponsored income centers that have each achieved the rank of 1 Star Associate or higher in the current monthly commission period; the income centers may have been sponsored in any commission period, they only need to have met Active status in the current period
Benefits – 3 Star Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – 3 Star Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Commissions – 3 Star Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 5% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV
Level 4 – 5% of CV
Level 5 – 5% of CV
Level 6 – 5% of CV
Level 7 – 5% of CV

Benefit 3 – 3% Infinity Bonus – 3 Star Associates will receive a 3% Infinity Bonus on all CV present in their Downline down to, but not including, the next inline income center of equal or greater rank

<u>5 Star Associate</u>

Qualifications – the following conditions must be met to achieve this rank:

Condition 1 – have met Active status in the current monthly commission period

Condition 2 – have a minimum of 5 personally sponsored income centers that have each achieved the rank of 3 Star Associate or higher in the current monthly commission period; the income centers may have been sponsored in any commission period, they only need to have met Active status in the current period

Benefits – 5 Star Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – 5 Star Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Commissions – 5 Star Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:
Level 1 – 5% of CV
Level 2 – 5% of CV

Level 3 – 5% of CV
Level 4 – 5% of CV
Level 5 – 5% of CV
Level 6 – 5% of CV
Level 7 – 5% of CV

Benefit 3 – 5% Infinity Bonus – 5 Star Associates will receive a 5% Infinity Bonus on all CV present in their Downline, reducing by any other Infinity eligible income centers encountered until the total percentage left to pay is zero

E.g. there are 3 Infinity eligible income centers in a leg of Downline, X, Y and Z; X is highest up in the leg and Z the lowest. X is a 5 Star Associate and eligible for a 5% Infinity Bonus. Y and Z are both 3 Star Associates and eligible for 3% Infinity Bonuses.

X will receive 5% on all CV in the leg of Downline until encountering Y. At the Y position, X's available percentage will be reduced by the amount Y is eligible for, 3%. 5 – 3 = 2. X will begin receiving 2% from Y's position down.

X earns 2% on all CV in the leg of Downline until Z is encountered. At the Z position, X's available percentage will be reduced by amount Y is eligible for, 3%. 2 – 3 = -1. -1 is not greater than 0. X's Infinity percentage will have been reduced to zero and X's benefit will cease immediately prior to the Z position.

<u>7 Star Associate</u>

Qualifications – the following conditions must be met to achieve this rank:

Condition 1 – have met Active status in the current monthly commission period

Condition 2 – have a minimum of 7 personally sponsored income centers that have each achieved the rank of 5 Star Associate or higher in the current monthly commission period; the income centers may have been sponsored in any commission period, they only need to have met Active status in the current period

Benefits – 7 Star Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – 7 Star Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Commissions – 7 Star Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 5% of CV
Level 2 – 5% of CV
Level 3 – 5% of CV
Level 4 – 5% of CV
Level 5 – 5% of CV
Level 6 – 5% of CV
Level 7 – 5% of CV

Benefit 3 – 7% Infinity Bonus – 7 Star Associates will receive a 7% Infinity Bonus on all CV present in their Downline, reducing by any other Infinity eligible income centers encountered until the total percentage left to pay is zero

Refer to “5 Star Associate” for an example of how this bonus works.

Benefit 4 – 7 Star Bonus Pool – each monthly commission period, 7% of the CV for the current monthly commission period will be set aside for the 7 Star Bonus Pool. Each 7 Star Associate will receive an equal split of the pool as a bonus.

E.g. 7% of the CV for the monthly period is $50,000. There are five income centers that achieve the rank of 7 Star Associate during the period. 50,000/5 = 10,000. Each 7 Star Associate will receive a $10,000 bonus.

Appendix H

Sample Recycling Matrix Compensation Analysis

This compensation plan is a 2 x 2 Recycling Matrix plan.

All commissions are calculated on the same schedule, "weekly". I.e. there are not multiple commission processing schedules such as weekly and monthly.

Definitions

Distributor – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Income Center – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Primary Income Center – a primary income center (or "001") is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or "002"), the third the tertiary (or "003") and so forth and so on.

Active Center – the term Active center is used to denote the income center that a distributor is currently working – an income center on which commissions have not yet been paid, but which the income center is working towards earning commissions on.

Commissioned Center – the term Commissioned center is used to represent an income center on which a distributor has already been paid.

Customer – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions.

Placement Sponsor – refers to the income center that is immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity – especially true in fixed width systems such as this Recycling Matrix.

Enrolling Sponsor – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Downline – refers to positions (distributor and customer) in the genealogy below a specific income center in the genealogy.

Upline – refers to positions (distributor) in the genealogy above a specific income center in the genealogy.

Levels – Levels refer to layers of Downline. Those income centers that an individual is the placement sponsor of comprise the first level (or frontline). Those placed under one's own frontline comprise the second level and so forth and so on. An income center's own volume is not counted as being in any of its Downline levels.

Frontline – refers to an income center's first level of Downline.

Fixed Width Compensation Plan – a fixed width compensation plan restricts the number of income centers that can fall on any distributor's first level of organizational Downline; this Recycling Matrix is an example of a fixed width plan type.

Spilling – refers to a mechanism that automatically determines placement sponsor positioning in fixed width compensation plans. Fixed width plans allow a finite number of income center positions on any individual's frontline.
E.g., in a 2 x 2 Matrix, no more than two income centers can be on an individual's frontline.

Once all frontline positions below an individual are filled, any new personal enrollments must be automatically forced into the next available position in the Downline. The rules for determining which position is the "next available" comprise the definition of the spilling type employed.

Left to Right/Level by Level Spilling – will be the spill type to use for this plan. This spill type works as follows.

When an individual sponsors a new enrollee, the first check will be to see if the sponsoring individual's frontline is full. If the frontline is not full, the new enrollee will be placed there. If the frontline is full, spilling must occur.

The LR/LL spill routine will then evaluate the second level of organizational Downline below the sponsoring individual. If available positions are present, the first position to the farthest outside left on the level will be selected for placement of the new enrollee. If there were no available positions on the second level, it would then move down one level to the third.

This spill type evaluates each level in the same fashion until the next available position is identified by asking the same two basic questions: 1. Are there any positions available on the current level (if not, go down one level)? 2. Once the level with an available position(s) has been identified, what is the first position, starting from the left and moving across the level to the right, which is not occupied?

Rank – a rank is a name that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Title – an income center's title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

Commissions

Associate

This is the default rank in the compensation plan.

Qualifications – None (be in good standing with the company)

Benefits – Associates receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Qualified Associate

Qualifications – the following condition must be met in order to achieve this rank:

Condition 1 – have completed the 2 x 2 Matrix structure

Benefits – Qualified Associates receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Qualified Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Cycle Commission – Qualified Associates will receive a $150 Cycle Commission for completing a Matrix

Benefit 3 – Recycling – Qualified Associates will have the option to recycle and begin building a new 2 x 2 Matrix as described in the "Recycling" portion of this document

Recycling

Once an income center has completed its 2 x 2 structure and been paid a commission, the distributor to whom the commissioned center belongs will be eligible to purchase product and, as a result, be granted a new income center.

Each new income center will be placed in the Downline of the original enrolling sponsor’s current active center. If the original enrolling sponsor does not have a current active center, the system will continue looking Upline by enrolling sponsorship for the first individual with a current active center.

E.g. distributor A personally sponsors distributor B. B personally sponsors distributor C. A remains active with the company and has a current active income center. B is not active and has chosen to leave the company. C remains active and has a current active income center.

C’s current income center cycles and C elects to purchase product and recycle back into the Matrix; this will result in C being awarded a new center. C’s new center cannot be placed under B, C’s original enrolling sponsor, because B does not have a current active income center.

C can, however, be placed under A, the first individual Upline by enrolling sponsorship lineage that has a current active income center. C will be placed in A’s current Matrix and count towards A earning its next commission.

Appendix I

Sample Unilevel Compensation Analysis

This compensation plan is a Unilevel plan.

All commissions are calculated on the same schedule, "monthly". I.e. there are not multiple commission processing schedules such as weekly and monthly.

Definitions

Distributor – a distributor is a person that has enrolled with the company, wishes to build Downline(s) and participate in the compensation plan.

Income Center – an income center is a position in the organization that can build Downlines and participate in the compensation plan. Distributors may have multiple income centers (or not at the discretion of the company). Each income center belonging to a distributor can build its own Downline. Qualifications and benefits are calculated independently for each income center position.

Primary Income Center – a primary income center (or "001") is the very first one created for a distributor, the first income center that a distributor is awarded at the time of initial enrollment. The second center generated is called the secondary income center (or "002"), the third the tertiary (or "003") and so forth and so on.

Customer – a customer is a person that wishes only to purchase product at retail price from the company. Customers are not eligible to build Downlines or receive commissions. Customer volume is added to that of the sponsoring income center during commission calculations; customers do not occupy a position in each level of Downline.

E.g, X sponsors income center Y frontline to himself. Y in turn sponsors customer Z. Y purchases $100 CV during the commission period and Z purchases $50 CV during the commission period.

Z's $50 CV will be added to Y's $100 CV, placing $150 CV frontline to X at Y's position. Z is not considered to be second level to X.

Placement Sponsor – refers to the income center that is immediately above a position in the Upline. The Placement Sponsor is not necessarily the income center that brought an individual into the opportunity.

Enrolling Sponsor – refers to the income center that brought an individual into the opportunity. Although an Enrolling Sponsor may be the same as the Placement Sponsor, the two do not have to match. The term "Personally Sponsored" is used to refer to those that an individual is the enrolling sponsor of.

Downline – refers to positions (distributor and customer) in the genealogy below a specific income center in the genealogy.

Upline – refers to positions (distributor) in the genealogy above a specific income center in the genealogy.

Levels – Levels refer to layers of Downline. Those income centers that an individual is the placement sponsor of comprise the first level (or frontline). Those placed under one's own frontline comprise the second level and so forth and so on. An income center's own volume is not counted as being in any of its Downline levels. Customer volume is applied to that of its sponsoring income center in order to determine the position/level in the Downline that it falls in.

Frontline – refers to an income center's first level of Downline.

Unlimited Width Compensation Plan – an unlimited width compensation plan is one that does not restrict the number of income centers that can fall on any distributor's first level of organizational Downline; this Unilevel is an example of an unlimited width plan type.

Compression – refers to the process whereby inactive income centers are temporarily removed from the Downline for the purpose of commission calculations. Active income centers in the Downline then roll up to occupy the positions vacated by the inactive centers. This effectively removes "dead spots" from the organization and

makes the most volume available possible to pay commissions on.

The “Active” amount off which compression is triggered is based off PV. Within this compensation plan, income centers are considered Active when they have a PV of greater than zero in the current commission period.

Compression Example – the company counts individuals as inactive only when they have not made a purchase carrying PV of any amount in the current commission period. Within the current commission period, the company has four income centers present: A, B, C and D. A is at the top of the organization. B is placed directly below A. C is placed directly below B. D is placed directly below C.

Focusing on the A position, A is Active and fully qualified to earn commissions. B is inactive. Both C and D are Active. When compression is enacted, B will be temporarily removed from the Downline.

C will roll up to take B’s position and D will roll up to take C’s position. A will then be paid frontline commissions on C and second level commissions on D. After commission calculations are complete, B will again assume its position and the Downline will return to its pre-commission format.

Rank – a rank is a name that represents the achievement of qualifications and benefits within the compensation structure. Income centers must meet the necessary qualifications to receive benefits associated with a rank each and every commission period.

Title – an income center’s title is the name of the highest rank that the income center has ever earned within the compensation structure. Titles are permanent until a higher one is earned. Income centers are paid according to their rank, not title.

CV – Commissionable Value or Commissionable Volume.
CV is the value of a product that Unilevel qualifications and benefits are calculated off of. For instance, if there was $100 Unilevel CV present on a level of Downline and the percentage to earn on that level was 10%, the total amount paid on that level would be $10;

{(100) (0.10)}.

PV – stands for Personal Volume. PV is the sum total CV purchased by a particular income center and that income center's personally sponsored customers in the current commission period.

APV – stands for AutoShip Personal Volume. APV is the sum total CV purchased via an AutoShip order by a particular income center and that income center's personally sponsored customers in the current monthly commission period. Note: all APV counts towards the PV tally by default.

Active – income centers are considered Active when they have greater than zero PV in the current monthly commission period.

Commissions

<u>Associate</u>

This is the default rank in the compensation plan.

Qualifications – None (be in good standing with the company)

Benefits – Associates receive the following benefit:

Benefit 1 – Retail/Wholesale Bonus – Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

<u>Bronze Associate</u>

Qualifications – the following condition must be met to achieve this rank:
Condition 1 – have a minimum of $35 PV in the current monthly commission period OR $25 APV in the previous monthly commission period

Benefits – Bronze Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Bronze Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Commissions – Bronze Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 8% of CV
Level 3 – 8% of CV

Silver Associate

Qualifications – the following conditions must be met to achieve this rank:

Condition 1 – have a minimum of $35 PV in the current monthly commission period OR $25 APV in the previous monthly commission period

Condition 2 – have a minimum of 3 personally sponsored income centers that have achieved the rank of Bronze Associate or higher in the current monthly commission period; the personal sponsorships do not need to occur in the current period, the personally sponsored only need have achieved the rank in the current period

Benefits – Silver Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Silver Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period
Benefit 2 – Levels Based Commissions – Silver Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 8% of CV
Level 3 – 8% of CV
Level 4 – 8% of CV
Level 5 – 8% of CV
Level 6 – 8% of CV

Gold Associate

Qualifications – the following conditions must be met to achieve this rank:

Condition 1 – have a minimum of $100 PV in the current monthly commission period OR $70 APV in the previous monthly commission period

Condition 2 – have a minimum of 5 personally sponsored income centers that have achieved the rank of Silver Associate or higher in the current monthly commission period; the personal sponsorships do not need to occur in the current period, the personally sponsored only need have achieved the rank in the current period

Benefits – Gold Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Gold Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Commissions – Gold Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 8% of CV
Level 3 – 8% of CV
Level 4 – 8% of CV
Level 5 – 8% of CV
Level 6 – 8% of CV

Benefit 3 – Gold Bonus Pool – each monthly commission period, 10% of the CV invoiced in the period will be set aside. Each Gold Associate will receive an equal share of the pool.

E.g. 10% of the CV for the current monthly period is $80,000. There are 40 income centers that achieve the rank of Gold Associate. Each Gold Associate will receive $2,000

Platinum Associate

Qualifications – the following conditions must be met to achieve this rank:

Condition 1 – have a minimum of $200 PV in the current monthly commission period OR $140 APV in the previous monthly commission period

Condition 2 – have a minimum of 10 personally sponsored income centers that have achieved the rank of Gold Associate or higher in the current monthly commission period; the personal sponsorships do not need to occur in the current period, the personally sponsored only need have achieved the rank in the current period

Benefits – Platinum Associates receive the following benefits:

Benefit 1 – Retail/Wholesale Bonus – Platinum Associates receive the difference between the retail and wholesale cost of products purchased by their personally sponsored customers in the current monthly commission period

Benefit 2 – Levels Based Commissions – Platinum Associates receive the following levels based benefits on the CV present in their Downline in the current monthly commission period:

Level 1 – 10% of CV
Level 2 – 8% of CV
Level 3 – 8% of CV
Level 4 – 8% of CV
Level 5 – 8% of CV
Level 6 – 8% of CV

Benefit 3 – Platinum Bonus Pool – each monthly commission period, 10% of the CV invoiced in the period will be set aside. Each Platinum Associate will receive an equal share of the pool.

E.g. 10% of the CV for the current monthly period is $80,000. There are 10 income centers that achieve the rank of Platinum Associate. Each Platinum Associate will receive $8,000

Benefit 4 – Platinum Car Bonus – Platinum Associates will receive a flat $500 bonus each and every commission period in which they achieve the rank

Appendix J

The Great Payout Debate

Appendix J, "The Great Payout Debate", was added onto the primer as a result of the confusion that often surrounds the evaluation of compensation plans and which offer the greatest payback.

You may very well have encountered situations where two different distributors were attempting to recruit you to two different MLM companies based off the strength of each company's compensation plan. To reiterate earlier writings, compensation plans are not the most accurate barometer of a company's potential or health, however it is important to understand that they are frequently used as a recruiting tool.

As it turns out, distributor 1 and 2 belong to companies that sell a very similar product. Both distributors have made a great pitch for your services and you are struggling to make a choice when distributor 1 pulls you aside and points out the facts: comparing the plans on paper, distributor 2's company only pays back 60% while distributor 1's company pays out 70%!

Your eyes have been opened and you know that distributor 1's company is the better option because it will pay you more… or will it?

Foremost in the discussion of payback is the concept of CV or Commissionable Volume (also frequently called BV, or Business Volume). CV is nothing more than the value of a product that commissions are paid on.

As an example, distributor 1's "company X" may sell a widget for $100, however cannot offer a CV of $100 on the product. This is because although X sells the product for $100, X also has $30 in cost related to producing the product and needs to retain another $30 off of each sale of the widget in order to cover overhead and expenses. 100 – 60 = 40; $40 is the most CV that X could afford to associate with the sale of a widget.

Distributor 2's "company Y" may sell the same widget for $100, however Y negotiated a better deal on their cost. While the widget costs X $30 to produce, it may only cost Y $10 to produce. Company Y provides $60 CV on the widget whereas company X can only provide $40 CV on the same product.

Evaluating the commissions from this perspective suddenly makes distributor 2's opportunity, company Y, more lucrative. The reason is that 60% of $60, or $36, is much more attractive than distributor 1's opportunity, company X. At 70% payback, but on only $40 CV, the most that would be paid out on a sale of company X's widget would be $28.

This simple example illustrates that it is important to not only look at the percentages being paid, but also the values that those percentages are calculated on.

When evaluating or comparing compensation plans strictly from the perspective of payback, be sure to gain an understanding of what values commissions are being calculated on. Critically evaluate statements such as "100% payback". Does that mean 100% of CV, 100% of the wholesale value of a product, 100% of the retail value or something else?

Some companies will keep low percentage payback in their plans with the understanding that they are calculating on the full sale price of a product – not a reduced CV value. Others may offer more gaudy payback percentages, but on only a fraction of the product sale price.

Critique each plan independent of the other in order to ascertain what the actual payback realized may be.

Of course, if you are truly interested in designing a viable compensation plan or settling on the right company to be a distributor for, take into consideration all of the pertinent factors and how they interrelate: Management, Product/Service, Opportunity, Community and Compensation.

Trust your instincts, choose what is right for your unique situation and best of luck as you hit the recruiting trail!

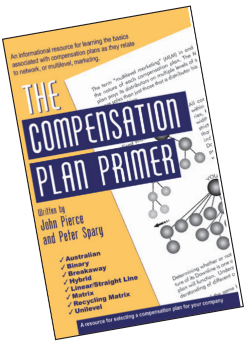
Peter Spary

Notes

Notes

The Perfect Product

MLM is about products, services and sales first and foremost? Focusing on establishing your product or service before branching out into other areas of company development and you will have a head start on success.



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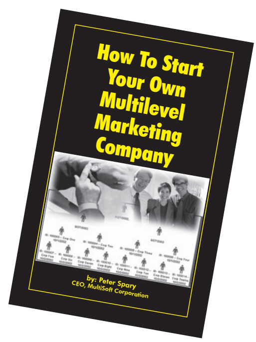

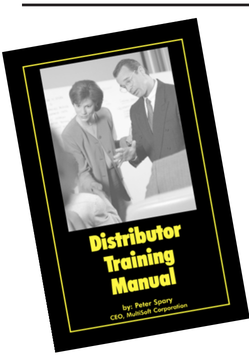

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