Fourth Generation Systems

BACKGROUND BRIEFING

21 Ways to Identify Fourth Generation Compensation Plans

Our Mission

We exist to help set people free.

Our Values

- Integrity
- Intelligence
- Information
- Insight
- Integration
- Inspiration
- Innovation

Our Standards

Do only the right things for only the right reasons.

Relationships before results.

People before profit.

Cause before effect, always.

Please note:

These comments relate only to the Compensation Plans and do not relate to the overall opportunity available from any company, the company's motives, policies or practices.

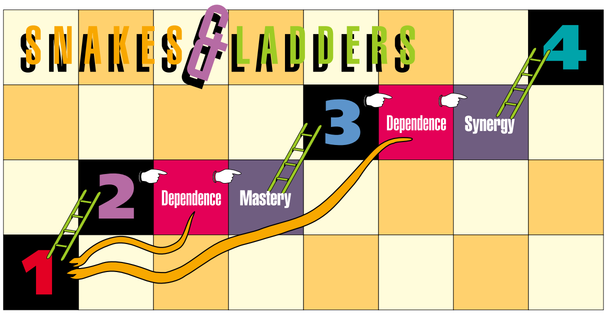
Readers should determine for themselves whether or not the criteria set out in this and other publications from **Fourth Generation Systems** are compatible with their own values and standards.

Important

This report should be read in conjunction with any of our Compensation Analysis Reports #3.x to ensure that you understand the basis of the analysis and the conclusions of the Report.

Introduction

Report #2 explained the key differences between Fourth Generation business systems and First, Second and Third Generation systems. It showed why network marketing, when done properly — REAL Network Marketing™ — is the *only* Fourth Generation business system yet to evolve, while any network marketing business that tries to operate on First, Second or Third generation principles and practices automatically slides down the board and reverts to being a First Generation counterfeit… "Network Marketing."



In this Report, we take this concept a full stage further and set out the 21 key principles that typify a Fourth Generation, REAL Network Marketing™ business.

We also spell out the common booby traps that sabotage so many well-meaning companies, usually through ignorance — the owners and management team simply don't know the differences between the generations, or don't know the principles on which REAL Network Marketing™ operates. They may know the right things to do, but they don't know the right reasons for doing them, so they're not in control of the processes at work in their businesses. They're also flouting the **Law of Success**, which can't be broken… you just break yourself and your business against it in the end. This law is unequivocal:

> "Do ONLY the right things, for ONLY the right reasons."

Of course, this Report only focuses on the compensation plan, which is only one factor in determining Fourth Generation business systems. Others include the nature and basis of relationships, network and company cultures, management policies and practices, leadership styles, training and many others.

But in network marketing, the compensation plan plays a pivotal role in shaping many of these other factors. It's the most influential aspect of all. So what we explore in this Report will make a difference, and will play a major role in helping to determine whether or not a company offers a genuine Fourth Generation opportunity or just another First Generation imitation that lacks the power it needs to deliver on its own promises — a counterfeit.

These are the principles that form the foundation of any Fourth Generation network marketing business.

Please note that we make no allegations or imputations in respect of the motives or intentions of any company featured in these reports, nor should any such inferences be drawn from them.

Our intention is to identify features of the plan that meet our criteria for compliance with Fourth Generation principles and practices and those that may give rise to abuse by individuals, or that may disadvantage some distributors.

Readers should decide for themselves whether or not these criteria are compatible with their personal values and standards for doing business.

You'll find active links to our other **Background Briefing Reports** on our web site (see final page).

The Principles, why they're indispensable, common booby traps and counterfeits

1. The plan is based on the immutable **Law of Success**…

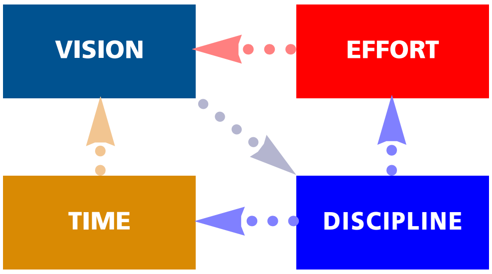
   "Do *only* the right things, for *only* the right reasons."

   This guarantees the integrity of the plan and the business, and ensures that no mistakes can be made. The catch is, of course, that even those who know the right things to do rarely know the right reasons for doing them, so they're rarely in control of any of the critical, cause-and-effect processes *(relationships)* involved.

   Common Flaws

   Most plans, by design or ignorance, encourage the right things for the wrong reasons, the wrong things for the right reasons, the wrong things for the wrong reasons — or to take a guess!

2. **The plan is based on the Four Cornerstones of Success:** Vision, Time, Effort and Discipline. It doesn't promote a false vision that requires no time, effort or discipline.



Every result requires a clear and compelling vision of an unrealised reality, and investment of time and effort to realise that vision, and the self-discipline required to invest that time and effort. Without that compelling vision, there will be no self-discipline. It will be a pointless, directionless waste of time and effort.

The time and effort are usually fixed. They can't be eliminated and can rarely be reduced. But they can be leveraged by *other people's* time and effort — which is why network marketing relies on sponsoring to give leverage to retail selling, and vice versa.

An intelligent, Fourth Generation plan ensures a sound balance that requires all four cornerstones of success be met.

Common Flaws

*Most "Network Marketing" plans, either by default or by design, ignore one or more of the cornerstones, or create a false vision that appeals to **their absence.** This approach cannot work.*

The simple, reliable test of any counterfeit in "Network Marketing" is whether or not it offers

- *a FALSE **vision** of success based on…*
- *NO **time***
- *NO **effort***
- *NO **self-discipline**.*

You can be 100% certain that any appeal based on the ABSENCE of any of these four cornerstones of success is a "quick-fix" counterfeit.

3. **The plan is based on the foundation principle of free enterprise** —

   There are no rewards for activity, only for results.

It doesn't confuse reward and recognition. It rewards results in the form of **profitable product sales**, and recognises activity that can leverage the results of a downline team **through an increase in profitable product sales.** But it doesn't reward the act of sponsoring, overtly or covertly.

4. **The plan ensures clear consequences for personal choices.** Producing results is rewarded, and failure to produce results is penalised. It provides clear warnings and limited opportunities to correct any failure before adverse consequences become inevitable. There is no appeasement or removal of consequences for consistent inactivity or lack of results.

This principle is missing from most plans because of the trend by "Network Marketing" companies, throughout the 1980s and 1990s, to appease their networks rather than require any kind of commitment to producing results.

An intelligent Fourth Generation plan not only offers attractive rewards, but requires a commitment from distributors that, if not met, means that they have to suffer the consequences of their own failure to meet reasonable qualifications.

Too often, appeasement means that there appear to be NO consequences for failure to produce results in order to remain eligible for rewards when, in fact, those consequences are only delayed. Consequences can't be removed. They're inevitable. But the chickens too often take a long time to come home to roost and, in the meantime, the misperception that they don't exist arises and is reinforced by company policies and practices, so that the wrong lessons are learned.

Common Flaws

Most "Network Marketing" plans try to remove adverse consequences in order to remove all reasons for prospective distributors to say "no".

This has resulted in a welter of self-defeating practices that, ultimately, can't work.

As a general rule, one of two things occurs which companies hope their distributors won't realise until too late — or, if company managements are typically ignorant of the principles that drive Fourth Generation business systems, they don't see it themselves until it's too late…

- ***Part-timers are rewarded by robbing their upline leaders.***
- ***Upline leaders are rewarded by robbing their downline part-timers.***

Examples of the first mistake include the now-discredited "Cumulative" plan.

This concept was based on the argument that some part-timers were loyal consumers, unable to sponsor others, but they bought from the company month after month, year after year, so they should be rewarded for that loyalty. So their monthly purchases became cumulative, and as the cumulative total reached the next level on the *bonus schedule, those non-achievers would receive either higher wholesale discounts or higher bonus percentages.*

The fundamental principle of the free enterprise system is "there are NO rewards for activity, ONLY for results" for a very good reason… activity brings in NO profits from which to pay anyone.

That's why it's illegal (and suicidal) to reward people merely for sponsoring new people.

It's why it should also be illegal (it's equally suicidal) to reward people merely for BUYING.

(Buying is an activity, not a result. No matter how much you buy, until you sell it for more than it costs you, all you have is more products than you probably need, and less money than you had before you bought them.)

So where does the money come from to reward these non-achievers at increasingly higher rates?

There's only one place it CAN come from: upline earnings!

You can only reward lack of results in the downline by robbing the upline. Not a smart move when the company is so reliant on its full-time professionals to drive recruiting to maintain activity and retention levels for the company.

The basic principle of bonus income is that it comes from THE COMPANY's share of the wholesale price paid to it for its products.

In order to reward upline sponsors for the activity of sponsoring, through illegal and quasi-legal practices like front-end loading, bonus buying, training and coding bonuses, etc, the ONLY place the money can come from is new people being sponsored.

This places the company, and those distributors doing these things, squarely over the line into illegal pyramid selling territory, exposing them to the very real (and increasingly likely) risk of prosecution by regulatory authorities.

Beware of any compensation plan that appears to offer you a financial advantage over your downline or upline. The reality is that you'll be both upline and downline to other people — so you'll suffer just the same.

5. **The plan does not create favourable impressions that are illusory or misleading, or that are subject to terms and conditions that are buried in fine print.**

   Many companies offer simplified presentations of highly complex plans that end up being deceptive or misleading, whether intentionally or not. This makes the reams of fine print, disclaimers, conditions and riders attached to these plans even more vital to study carefully.

   Often, the plan will create a seemingly-positive impression that's completely reversed when you study the fine print.

   Yes, the fine print may bring the plan and its presentation into compliance with the letter of the law, but it's hardly in compliance with the spirit of that law.

6. **The plan is transparent** in showing the proportion of wholesale revenue returned to the network and the relative value of qualifying points to wholesale prices.

   The bottom line for any compensation plan is what percentage of the company's wholesale revenue is actually paid back to the distributor network, and how equitably that amount is distributed. In other words, how much goes to reward the "heavy hitters" and how much do part-timers earn?

   Another concern about compensation plans is the amount of breakage that flows back to the company in windfall profits. Breakage is the money theoretically payable to the network under the plan but which, because of high group volume and downline rank qualifications, isn't actually paid because distributors fail to qualify.

   That money rolls up to the company. It's estimated that some companies attribute as much as 50% of annual net profits to breakage. It's doubtful that those companies will be in any hurry to forego this lucrative, below-the-line source of income.

   This, in turn, begs the question of how achievable the various qualifications within the compensation plan are in reality, with such a strong inducement to companies to set them higher than most people are ever likely to achieve.

7. **The plan doesn't encourage or support deceptive, manipulative or illegal practices,** such as front-end loading, bonus-buying, or anything like them.

   These practices are the wrong things to do, for all the wrong reasons. Consequently, they can't work long term. They're almost always used to gain a fast result in the short term. They manipulate and exploit the plan for personal advantage, almost always at someone else's expense.

   Common Flaws

   Front-end loading is the practice of encouraging new people to buy expensive "fast-start packs"or large initial product orders so they can achieve a higher bonus or discount level. (Note: reasonable *initial product orders for personal use are sensible for getting to know the products and enjoying the benefits they deliver — we're talking here about excessive product purchases when the new distributor has no retail customers or wholesale buyers ready to sell them to.)*

"Front-end loading" is not just unethical. It's illegal under most existing anti-pyramid selling laws.

"Bonus buying" is the practice of buying more product than you need, simply to reach a higher bonus or discount level that ensures that the increase in your bonus is greater than the cost of those extra products. A reasonable purchase can make sense occasionally. But anything done to excess will usually cause problems.

An example of this is product "dumping" at heavily discounted prices, often on auction sites like e-Bay, which undercuts the ability of your part-time and new people to compete with you for customers for the same products.

8. **The plan does not rely on, or encourage, one-time bonuses as a significant part of an individual's monthly income.** It should be balanced to prevent over-reliance on one-time bonus payments.

   Genuine one-time achievement bonuses should come from *the company's* share of the wholesale price, NOT from purchases of large product packs or fees from new recruits. Otherwise, there's an in-built inducement for distributors to abuse the provisions of the compensation plan through front-end loading, bonus-buying and other questionable practices.

   One-time bonuses are a form of **reciprocal** income. Any reciprocal income that does NOT come from **retail product sales** should be minimal in order to prevent deceptive, abusive or illegal behaviour on the part of distributors.

   Common Flaws

   Most one-time bonuses are a knee-jerk response to a perceived threat from another company, and are designed to reward distributors for activities related directly to recruiting. They're typically designed to produce bigger, faster reciprocal income for people focused on sponsoring rather than retailing.

   In other words, they're a form of appeasement, so that people don't have to sell to customers.

   Some plans are so reliant on one-time bonuses that have been progressively added to their plans over time, that they don't realise that they may have crossed the line and become technically in breach of anti-pyramid-selling laws.

   *Yet again, the company's ignorance, incompetence, fear of loss or old-fashioned greed — all symptomatic of not having a clue about **REAL network marketing**™ — are a clear warning to the informed individual.*

9. **The plan balances qualifying requirements so that they're low enough for distributors to meet them, but high enough to deliver worthwhile rewards.**

   This can be difficult, especially with low-margin or low-cost products. Few companies are prepared to require a realistic commitment from their people to ensure that there's a reasonable return to them in income. By cutting the level of commitment to low levels, just to appease distributors, companies may unwittingly sabotage any opportunity for those same people to build their bonus income fast enough to cover their monthly commitments.

10. **The plan balances the needs of all three stakeholders in the distribution system:**

    - The **company**
    - The **part-time** distributor
    - The **full-time, professional** distributor.

    and rewards each fairly. None of them profits at the expense of the others.

    Common Flaws

    This is extremely rare. The vast majority of plans are geared AGAINST the part-time distributors, who typically make up more than 90% of a network in "Network Marketing." (See item 4.)

11. **The plan doesn't reward distributors at the expense of their upline leaders.**

    Intelligent plans avoid this blunder by rewarding individuals in direct proportion to their personal results (not just activity). *(See item 4.)*

    Common Flaws

    Practices like cumulative plans and bonuses that are funded by pro-rated reductions in upline bonuses can create a misleading impression. By the time the downline person receiving bonuses at the expense of their upline leaders begin building downlines of their own, they become upline leaders too — who are being robbed to reward those downline people.

12. **The plan doesn't reward upline leaders at the expense of their downline teams.**

    Practices like one-time bonuses, training bonuses and other ways of rewarding upline leaders from the money spent by their new recruits and downline teams undermine the very relationships on which their businesses are so dependent for their survival and success. *(See item 4.)*

13. **The plan allows the individual to determine their own percentage bonus percentage, based on their personal performance, not the performance — or lack of it — of their downline team.**

    In other words, no group volume or downline rank or structure qualifications are imposed that result in breakage to the company through failure to qualify. Every qualification is determined by the individual distributor's *personal* performance.

    The size of the group bonus pool must always be determined by the group product volume for the month, because there's no other source of cash from which to reward anyone, the company included.

    But when an individual's bonus rate is also determined by the performance of their downline organisation, then that individual suffers a costly — and grossly unfair — DOUBLE penalty if the downline fails to perform. Not only is the size of the bonus pool smaller, but the leader's percentage share is also smaller.

    This seriously undermines the fairness of the plan and the credibility and integrity of the company.

    An intelligent Fourth Generation plan ensures that any distributor is able to control their own percentage share of the group bonus pool by their PERSONAL productivity. That way, maximising their benefits from the compensation plan is entirely in their own hands.

    This means, at the very least, NO group volume qualification in determining personal earning rates, and NO downline rank requirements in determining an individual's personal earning rate.

    Common Flaws

    Most "Network Marketing" plans demand that individuals meet increasingly higher group volume requirements in order to qualify for higher bonus percentage rates, and/or increasingly higher downline rank or structure requirements.

    The reality of these plans is that "breakage" occurs, producing sizeable windfall profits for the companies involved.

    Breakage is the money that rolls up to the company from bonus pools where individuals fail to qualify for higher percentage payouts, despite having achieved high group volumes. It's estimated that, for some companies, breakage accounts for as much as HALF their annual net profits, so it's unlikely that they're going to want to change their plans when so much hidden income rolls up regularly, month after month.

    Some rolls up to the full-time professionals, but they're also subject to often-unrealistic group volume and downline rank requirements.

    Any plan in which an individual's personal percentage payout is determined by group volume and/or downline rank or structure requirements will increasingly be viewed as deceptive, dishonest or unfair.

14. **The plan allows full-time distributors to build substantial, secure income** through high activity and retention rates, not high "churn" (distributor turnover) rates.

    When the plan balances rewards intelligently, and also ensures that consequences are not avoided, full-time professional distributors benefit significantly from the ability of their downline people to actually earn worthwhile incomes. This ensures that those people stay active in the business, every month, instead of continually dropping out.

    The full-time professional works less and earns more because of this critical balance.

    Common Flaws

    In most "Network marketing" plans, full-time distributors are forced to work harder than ever, just to keep new people coming into the system to replace those constantly dropping out.

    This is a direct result of plans that fail to balance the distribution of rewards intelligently. They pay too little to the part-timers, so they soon grow discouraged and quit. In order to maintain their unrealistically high proportion of the total payout, the full-timers suffer a high level of desperation and stress and are forced into constant recruiting activity — making the growing damage to public perceptions of network marketing, and their own businesses, worse.

    It's a self-defeating tailspin that sees many full-time professionals eventually crash and burn.

    *(See also item 19 — **Common Flaws**.)*

15. **The plan recognises that the quality and durability of personal relationships** is the most significant factor in the long term success of every distributor's business. It encourages practices that support the nurturing of personal relationships and discourages practices that place those personal relationships at risk.

    People want to feel that **the relationship** is more important to you than any **result** that it might produce — *that you VALUE them more than any USEFULNESS they may offer you.*

    The irony (contrariness?) of human nature is that, once you demonstrate — by what you DO, not by what you SAY — that you **value people for**

themselves, not for their resources (time, talent, money, contacts, skills, etc) those people will give you practically unlimited access to their resources, provided always that you continue to place priority on the relationship, not the result.

Common Flaws

- *Plans that allow **downline placement of personally-sponsored distributors** are flawed, because they put the sponsor's self-interest (let's be blunt about it, their **greed**) ahead of the interests of the person they're sponsoring.*

  The new person rarely knows their "placement sponsor" — who doesn't know them, either — and almost always feels resentful because the person sponsoring them clearly places NO value on a relationship between them. They see the new person as nothing more than a means to a selfish end.

  No matter what they say, the reality is that they want to feel that you value them as a person, not just their usefulness to you as just another cash cow.

  They'll react in one or more of these ways:

  - Become discouraged.
  - Quit in disgust.
  - Do nothing in protest.
  - Ignore their placement "sponsor" and constantly seek *your* attention because they want to feel that you value them.
  - Constantly demand your attention because they consider — correctly — that you have an obligation to them.
  - Work hard so that they become independent and break out of your downline team as soon as possible. (In a stairstep breakaway system.)
  - Ask the company for a transfer to another sponsor or upline leader.
  - Harass, accuse and abuse you for your venality in not placing them in your first level, directly under YOU.

  Whatever they choose to do, you'll have earned it.

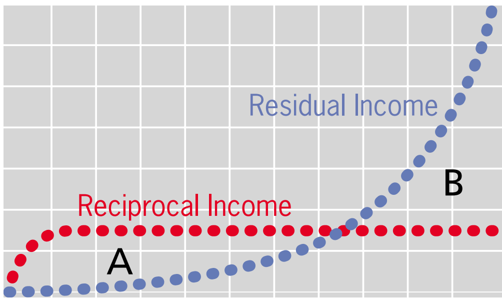
16. **The plan balances reciprocal and residual income** to provide genuine and effective LEVERAGE. In the free enterprise system — of which **REAL Network Marketing**™ is the most advanced form — there are no rewards for activity, only for results.

The *only* result in free enterprise business is profit. And profit *only* comes from selling things for more than they cost you. (Anyone can sell them for less.)

Sponsoring is *not* a result. It's an *activity.* It only adds leverage to your business if it produces *more sales — and they're profitable sales.*

An intelligent Fourth Generation plan recognises this reality and rewards individuals for making personal sales through reciprocal income (usually in the form of retail profit), as well as encouraging personal sponsoring to support and encourage more profitable, personal sales by those you sponsor, in the form of residual income through leveraged bonuses paid from the company's share of its wholesale revenue.

The right balance also creates the right perceptions for those working their business in the most intelligent, leveraged way. This notion is best demonstrated by the following graph:



Reciprocal income is represented by the red curve, which rises rapidly, but flattens as it hits the time available for retail selling and the fixed nature of trading one thing of fixed value (products) for another thing of fixed value (the retail price).

Residual income is represented by the blue curve, which illustrates the nature of exponential growth — slow to begin as infrastructure is put into place, new knowledge and skills are acquired and leverage is acquired and compounded. In network marketing, this takes two specific forms:

- **increasing personal know-how**, and
- **sponsoring people** who do the same.

The risk, always, is that people will see that those who focus exclusively on reciprocal income will achieve very fast income growth, and that it's consistent and predictable every month — and relatively higher than their own income. That perceived — and actual, temporarily — difference in monthly income is represented by A.

Those making this mistake tend to feel justified in ignoring residual income because of the perception that those sponsoring and training new people are getting nowhere. This is wrong, as the graph shows.

If this happens, more people can become focused solely on reciprocal income through personal retailing, while those who persist in building in a more balanced way may feel discouraged and give up. Most give up just before the point of critical mass is achieved that swings the growth curve sharply upward as the cumulative and compounding effects of duplication begin to occur, through increased personal expertise, plus consistent sponsoring and training.

Before long, those who've built their businesses with a sound balance of both reciprocal and residual income (which leverage each other) have swept past those focused on reciprocal income alone, who may then quit because it's such hard work because of the total lack of leverage in their activities.

Those who've made the mistake of focusing only on residual income will take much longer to achieve this kind of exponential growth because they lack the compounding leverage of higher volume through personal retailing by themselves and their people.

The real issue is balance — maintaining a sensible balance between ALL of the components of the compensation plan. Without proper balance, there can be no real leverage. The two are inseparable.

Common Flaws

These days, appeasement of distributors takes priority over true leverage and balance. So "Network Marketing" plans, like so much else in the counterfeits, pander to ***the five main reasons why 90% of "Network Marketers" FAIL…***

- *fear*
- *greed*
- *laziness*
- *ignorance*
- *gullibility.*

They do this by rewarding people for ***sponsoring****, usually through "coding bonuses," "training bonuses," "fast start packs" (that usually fall just below the magic $500 mark that triggers alarm bells in regulatory agencies responsible for enforcing anti-pyramid-selling laws), and a host of other creative ploys designed to create an up-front payout that will reward the sponsor simply for recruiting the new member, on the self-fulfilling and self-perpetuating assumption that most people will never do more than make that initial large purchase.*

Not only does this mean that, in reality, a large part of distributors' monthly income consists of one-time recruiting rewards, but they have to keep recruiting just to replace those dropping out because they can't make any money, despite their initial investment.

The truth is that, no matter how deceptive the name or the packaging, ***these tactics are in breach of most anti-pyramid laws — if not the letter of those laws, then certainly the spirit — because they encourage ILLEGAL practices like "front-end loading" and "bonus-buying."***

The rationalisations used by "Network Marketing" companies to justify these questionable tactics usually says a great deal about ***their true motives and ethics — or their ignorance of the principles that underlie REAL network marketing™*** *and other Fourth Generation business systems.*

Either way, the future of the company — and your financial security — is hardly promising.

17. **The plan balances rewards and qualifications for optimum activity and retention rates.**

Activity is the number of people in the network who order each month, expressed in percentage terms. **Retention** is the number of people who remain active from one year to the next or, if more frequent purging of inactive people from the network database is carried out, from one qualifying period to the next. This is usually expressed as a percentage of the total network enrolment, too.

High activity levels ensure higher sales volume and worthwhile rewards.

High retention levels are an indicator of stability and, usually, indicate that people are either happy with the results they're getting, or plan to build their businesses in the next qualifying period.

A Fourth Generation plan will require that distributors take specific action at specific intervals in order to remain eligible for rewards and to remain on the company database.

Common Flaws

Many "Network Marketing" companies fudge these numbers in various ways, to make them look better than they really are. Examples of this include…

- *Charging nothing to join, then never requiring a renewal or qualification for distributors to remain on the database. This is usually done to preserve network numbers for promotional purposes. Prospective distributors are rarely interested in quality ahead of quantity. They're more impressed by large network numbers that the levels of income all those people are actually earning (or not, as is usually the case).It can sometimes be so difficult to be removed from a company database that it can seem that distributors have to die and* *decompose on the CEO's desk before they'll be removed.*

- *Substituting retention levels for activity levels to confuse the issue and convey a false impression.*

  High retention means nothing if company policy is to retain all distributors on its database, active or inactive, alive or dead. Retention figures will be much higher than activity figures when this deceptive practice exists, because distributors have to actually DO something — usually place an order — to be classed as active.

- *Fudging statistics by twisting the way they're presented.*

  Some companies measure retention from month to month, and include wholesale customers in the numbers. In other words, instead of retention being an indicator of satisfaction in the distributor network over a period of time, they define retention as the percentage of customers and distributors who buy from month to month.

  This can be misleading when it's compared to retention statistics from other companies who define retention as the percentage of distributors who renew for another year, or who meet the quarterly or other qualification required to remain a distributor.

  There are companies that claim retention levels between 80% and 90% because of the way they measure and report.

  For example, retention is usually interpreted as the percentage of people who renew their distributorship from this year to the next. If they had 100,000 distributors this year and 80,000 renewed for next year, that's an 80% retention rate. But if you reverse the process, and say "100% of the people on our database this year were on our database last year, so we have a 100% retention rate," this is quite deceptive and inaccurate, and gives a false view of the truth.

  Some of the companies claiming 80% to 90% retention from month to month do exactly that. When pressed for an explanation of their high claimed retention rate, the answer is "100% of the people who purchased THIS month also purchased LAST month."

  The inference created is that 80%-90% of the people who purchased LAST month also purchased THIS month. When the figures are deliberately presented in this fashion, it can be reasonably interpreted as deceptive practice.

  Let's put it another way:

  100,000 people purchased last month and only 8,500 of those same people purchased this month, because they dropped out, didn't like the products or simply didn't need to buy any more products this month.

  *That would be stated correctly as an **8.5%** retention rate from last month — a disaster.*

  *If 1,500 new people purchased this month who only joined this month, that would mean that, of the 10,000 (8,500 + 1,500) who purchased this month, 85% also purchased last month. But to claim this as an **85%** retention rate is hard to interpret as anything but deliberately manipulative and deceptive.*

  If it's NOT deceptive — in other words, the company really believes this is the correct way to measure and report retention rates — then the company's management is ignorant, incompetent or both and the future of the business is in very grave doubt.

  But if the company grows continually while using this kind of statistical "smoke and mirrors," it's not an unreasonable conclusion to draw that its ethics are less than impeccable, and typical of First Generation "Network Marketing".

18. **The plan balances its vertical and horizontal aspects for optimum growth, stability and security. It doesn't limit the number of legs a distributor may sponsor, and it doesn't allocate rewards too deeply downline.**

An intelligent, Fourth Generation plan ensures that proper balance is maintained between building **wide** (the *horizontal* aspect) and **deep** (the *vertical* aspect).

Building wide ensures income growth and stability because it adds more "legs" (additional income streams) to your business.

Building deep ensures security of income because it adds more layers to each of those income streams, or "legs". And, since each additional layer is encouraged to build width, it compounds the growth of your sales volume and, therefore, your residual income.

There's an old truism in network marketing that "if you have one leg to your business, you have a walking stick; two legs and you have a ladder; three legs and you have a bar stool; four legs and you have a table." This neatly sums up the whole issue of balance and stability.

Common Flaws

Companies ignore the wisdom, born of long experience, inherent in this saying. Two decades of attempted manipulation of proven compensation principles and practices, designed to short circuit the time, effort and discipline required to *build worthwhile, secure, long-term income, have shown conclusively, over and over again, that:*

- ***"Power leg" plans** (single leg, or "tap-root," systems) don't work. They can't. They lack balance, stability and personal relationships.*
- ***Binary Lateral plans** (a deceptive way of saying "two legs" which should start alarm bells ringing on two counts) don't work. They can't. They lack balance, stability and personal relationships.*
- ***Forced Matrix plans** don't work. They can't. They're based on the ABSENCE of any personal relationships.*

19. **The plan balances rewards so that part-time distributors can achieve profitability quickly, with an achievable downline structure.**

It recognises the reality of the majority of part-time distributors — that the typical part-time distributor sponsors between three (3) and six (6) people personally, and has a downline of two (2) to four (4) levels deep — and makes it possible for them to achieve profitability with such a structure, while encouraging them to achieve much more.

Ideally, new distributors should be able to cover the cost of their personal purchases from bonus income within the first three months.

Research has shown two "magic" figures that new, part-time people regard as acceptable mile-stones in the short and medium terms:

- Bonus income of $300 per month within 3 months.
- Bonus income of $1,200 per month within 12 months.

An intelligent, Fourth Generation plan will be geared to make these achievable, without resorting to any kind of front-end loading or rewards for sponsoring.

Common Flaws

*Most compensation plans are geared to keep the **full-time professionals** — the **real** priority of most companies — well-paid and loyal, for the simple reason that those companies know very well that, in order to earn huge incomes, these full-time people will have to work extremely hard to ensure those incomes are maintained, because the only way to pay those incomes is by NOT paying the part-timers well enough to ensure high activity and retention levels.*

Those full-time professionals have the motive and the experience needed to keep building and maintaining huge personal networks, ensuring the company's continuity and profits.

This is the usual reason why "Network Marketing" companies create high emotional dependence on their products and management personalities in their distributor networks. The compensation plans are simply not good enough to do the job.

So the superstar leaders — typically less than 1% of the total network — are presented as the role models for everyone in the network, with the assurance that anyone can do what these people have done… if they just desire it enough and are willing to work hard enough, for long enough, and to sacrifice income, time, effort and other resources in pursuit of their goals.

In other words, the rare exceptions are used to promote and sell the POTENTIAL of the plan — never the less-than-exciting REALITY.

That reality is that an estimated TWO-THIRDS of most networks don't even buy products for their own consumption because they can't earn enough to be able to afford them, and that 90% of part-time distributors don't earn enough to cover their monthly product consumption and related business costs.

*Available public records of company accounts indicate that, in a typical "Network Marketing" company, **90% or more** of total bonus payments to the networks go to **less than 2%** of the network members.*

Those companies have survived because of their "churn" rates — the opposite of retention. Some companies have "churn" rates of up to 120% per year — in other words, they turn over the equivalent of 120% of their entire network each year.

The numbers of disillusioned, disenchanted part-time distributors is now nearing the point of critical mass where those companies are finding it increasingly difficult to maintain their usual "churn" rates without more and more blatant appeals to the First Generation attributes of fear, greed, laziness, ignorance and gullibility — the very reasons why most people FAIL in "Network Marketing." So they simply hasten their own demise, while doing further collateral damage to public perceptions of ALL network marketing companies in the process.

20. **The plan is stable, predictable and reliable. It is not subject to regular change.**

When a plan is created from a sound knowledge and understanding of Fourth Generation principles and practices, it will normally have integrity, stability, simplicity, cogency, synergy and predictability that rarely needs modification to keep it effective and relevant to changing market conditions, despite panicked cries for change from the clueless to match trendy gimmicks offered by other, equally clueless plans.

Common Flaws

Most plans are born of ignorance, often lifted straight from existing, fatally-flawed plans. Then they're tweaked, appended and rejigged to the point where they can neither be understood nor made to work, even by experienced leaders.

Complicated hybrids, trendy tweaks and appeals to selfishness, laziness, fear of loss, greed, ignorance and gullibility are the hallmarks of First Generation "Network Marketing" companies.

21. **The plan is easy for new people to learn and present.**

An intelligent, Fourth Generation plan is easy to understand, easy to learn and easy to present, even for new people. And it's easy to create simple, effective strategies for building your business in ethical, high-leverage, win-win ways.

The vast majority of compensation plans do not favour the part-time distributor. They're geared to favour the full-time professionals and the company. In order to distract attention from this imbalance, it's customary to emphasise the **potential** of the plan rather than the reality when presenting the business opportunity.

This is further distorted by using only those full-time distributors earning significant incomes — the 2% earning 90% or more of the bonus income pool each month — as examples of the plan's potential.

The reality is that these people are **the exceptions, not the rule.** More than 90% of distributors will never earn that kind of income.

Common Flaws

Many companies offer simplified presentations of highly complex plans that end up being deceptive or misleading, whether intentionally or not. This makes the reams of fine print, disclaimers, conditions and riders attached to these plans even more vital to study carefully.

Others offer slick, glossy presentations that are heavy on emotional appeal and light on facts. The real appeal is often to the five main causes of failure in network marketing — fear, ignorance, greed, laziness and gullibility.

True professionalism in REAL Network Marketing™ is NOT about slick, glossy "professional" presentation skills and tools. It's about how easy it is for real people to duplicate. Too often we send the wrong silent messages to our prospects, so that they sit there, watching and listening to our slick presentation, all the while thinking to themselves that they could never do what they see you do.

In conclusion…

The use of the kinds of self-defeating methods and techniques described in this report can be a revealing guide to a company's real motives, attitudes and priorities, rather than those it publicly claims. It's the classic scenario: "actions reveal what words conceal."

Does this mean that network marketing is a flawed business model?

Only "Network Marketing" — the deceptive counterfeit with which most people are familiar. It's future is bleak, and deservedly so. It's end can't come quickly enough, because the longer it persists, the more people are damaged and disillusioned by it, tainting their perceptions of **REAL Network marketing™**, which will inevitably replace it as ordinary, decent people come to understand the crucial differences, and begin find genuine success with it.

It's debatable what that "success" will or should be. There's a school of thought that asserts that the real role of this business model is not to make everyone involved a multi-millionaire, but to help ordinary people enjoy the enhanced independence, reduced stress, increased discretionary income and freedom to spend time with those they care about, enhancing and enjoying those relationships and the societies within which they live.

Sounds like a pretty appealing world to me.

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