How to Scrutinize an MLM Pay Plan

PART III: The Matrix MLM Comp Plan

By Daren C. Falter

The Matrix

The matrix compensation plan started in the 1980s as an answer to some of the traditional compensation plans that were being used at that time. The matrix is everything its name implies. You start with a prearranged numerical matrix similar to an organizational chart for a large corporation. Most compensation plans are designed to allow you to sponsor unlimited numbers of distributors on your first level. With the matrix plan, you can only sponsor a certain number of people on your front line. Also, your front line distributors can only sponsor that same designated number of distributors on their front line. Distributors generally cannot sponsor outside the matrix, and there is a limit to depth. For example, in a 2 x 9 matrix, you sponsor two on your first level, four on your second, eight on your third, sixteen on your fourth, thirty-two on your fifth, sixty-four on your sixth, 128 on your seventh, 256 on your eighth, and 512 on the ninth level (or last level).

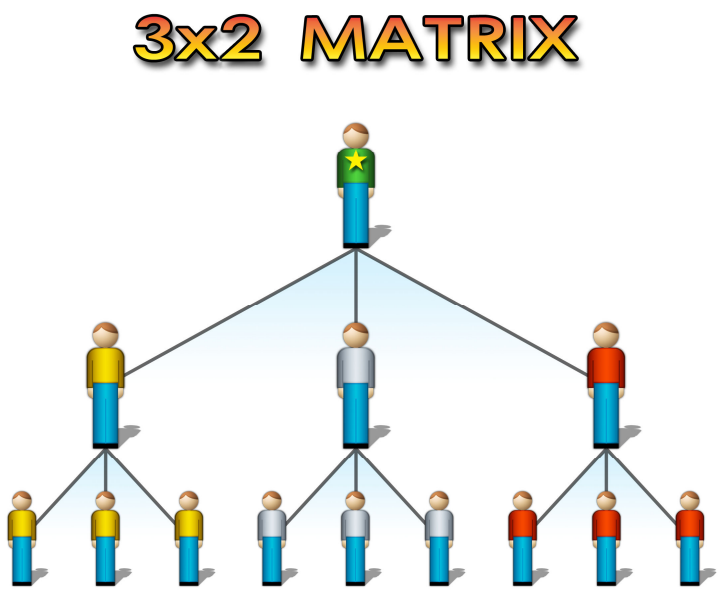
Common matrix configurations include:

2 wide x 12 deep
3 wide x 9 deep
4 wide x 7 deep
5 wide x 7 deep
7 wide x 2 deep

In most matrix plans, distributors do not earn commissions past the last pay level in the plan. Most matrix plans pay monthly, with commission checks being mailed around the twentieth of the month following the month in which they earned the commission check. The matrix sometimes incorporates fast-start bonuses, which are special bonuses paid to distributors to give incentive for them to immediately sponsor distributors and retail product. The matrix plan is used by about 4 percent of the companies I reviewed.

Let’s take a look at some of the good features of the matrix. In theory, distributors can receive spillover, which means they can have distributors who are sponsored by their upline fall into their downline. This benefits both the sponsor and the respective downline.

Because of this spillover theory, the matrix plan looks great on paper and can be exciting to present to prospects. Also, the matrix plan is easier to learn and teach to others. Matrix plans tend to be suited to buying clubs, service companies, Internet affiliate programs, and subscription sales companies that have predetermined monthly costs for the product or service because these programs are generally designed to pay out part-time commissions on fewer levels.



In a matrix plan, distributors typically know how many active distributors they will have to recruit in order to make "x" amount of monthly income. It is also easier to predict income potential on each level with the matrix. For example, a particular matrix plan may claim to pay $5 per person, per level. If you add up all of the possible positions that can be filled in the matrix, you will know exactly how much you can make. For example, in a 2 x 12 matrix, there are exactly 8,190 positions that can be filled. If each position is worth a $5 commission to the distributor, the plan can pay a maximum potential of $40,950 per month.

Now let's look at the bad aspects of the matrix. On paper, compensation plans can look glorious. However, upon reviewing matrix plans in great detail, I discovered that most matrix organizations pay on about 15–20 percent of their "hypothetical" potential at best because not all of the positions in the matrix fill up in real life. Once a matrix is about 20% full, almost all of the new sponsoring activity occurs beyond the distributor's pay levels. Even though his/her organization is growing by leaps and bounds, the distributor receives no compensation on distributors below the maximum pay level.

The forced matrix is a concept that seems to answer the above problem. In a forced matrix, each position on every level must be filled before distributors spill down to the next level. Theoretically, this would allow the distributor to eventually fill every position in the matrix. Unfortunately, due to the nature of the forced matrix plan, the distributor is left to sponsor most of their downline by themselves. In other plans, building a downline is more of a group effort and more emphasis is placed on creating synergy and teamwork. The forced matrix is one of the only plans that reward lazy distributors if they sign up under a dedicated distributor. Since all of the downline positions must be

filled, a lazy distributor can essentially sit back and watch his or her downline fill up. If the distributors can succeed without doing anything … they won't do anything. As resentment and animosity build in the downline, the organization eventually breaks down and everyone ends up losing.

If you establish a successful business and fill up much of your matrix, you will inevitably sponsor a *hot* distributor on your fifteenth, twentieth, or even fiftieth level and beyond. In the matrix, you can miss out on commissions that should be yours but aren't since this hot distributor is beyond your payout levels, making someone else money.

People who promote matrix plans will always try to lure you in with the enticement of spillover. They'll tell you, "If you get in now, you will have hundreds of people spilling into your downline, people you were not responsible for prospecting or recruiting." However, the only time spillover will actually occur is when a dud signs up under a superstar distributor, remains active, but doesn't recruit any distributors. The dud gets all the spillover while the superstar distributor, who works hard, is only rewarded for his or her personal efforts. Don't be fooled by the spillover myth. With limitations on payout levels, it is mathematically impossible to create spillover for more than just a few people among your entire distributor force.

In some non-forced matrix plans, the payout levels are radically different from level to level. For example, a matrix plan might have a heavy payout level (like 30–40 percent) on the third level but a 5 percent payout level on every other level. Distributors might stack other distributors on the first and second level in order to get to this large third level payout sooner than it would naturally occur. This pushes volume and downline past the heavy payout levels and beyond the last payout levels so quickly that potential compensation is jeopardized. Matrix programs with level limitations that encourage any form of stacking should be avoided.

Matrix: Overall evaluation

The matrix plan can be a good plan for certain types of products and services. As a whole, it has not been accepted as a mainstream plan and is commonly utilized by smaller service and support MLMs, like sales lead generation programs and other support MLMs. Also, matrix plans are often being utilized for a new breed of MLM programs, called *affiliate programs*, which can be found frequently on the Internet. Affiliate programs are simply direct sales programs the pay one or two generations of commissions, not several generations like in network marketing. For some affiliate programs, a shallow matrix plans (two to three levels deep) seems to be an appropriate alternative to a more traditional MLM plan.

There is one matrix plan that has a better track record than the traditional matrix plans. This is the 5 x 7 matrix. This matrix plan and others like it behave more like a unilevel compensation plan because of adequate width and depth. If you are considering a matrix compensation plan for your main MLM program, make sure the compensation structure has a width of five to eight people and a depth of at least seven levels. The other plans, especially the 2x, 3x, and 4x plans, have proven to lack stability.

About the Author

Daren C. Falter is the author of the network marketing industry-wide best seller *How to Select a Network Marketing Company*. Daren has been a consultant to the network marketing industry for over 12 years and a student and participant for over 20 years. Daren has built downline organizations into the tens of thousands of distributors with several different companies. Daren is a popular convention speaker and trainer. You can visit Daren online at his blog at www.networkmarketingreview.com. You can also order Daren's best-selling MLM book at www.networkmarketingbook.com.

Daren recently launched a new network marketing company, Yoli, Inc., near Salt Lake City, Utah. Daren and his four partners are excited to introduced the worlds most nutritious beverage using patented BlastCap™ Technology. For more information about Blast Cap Technology, Blast Caps, or Yoli, visit Yoli at www.yoli.com.

ATTENTION: Breaking News!

Daren Falter will be launching a new company called Yoli. We will be introducing an incredible new nutritional formula in the form of a delicious functional beverage using Mikel Anderson's patented Blast Cap Technology. The founders of Yoli are Robby Fender, Daren Falter, Rick Eisele, Corey Citron, and Michael Prichard. To find out more about Yoli Blast Cap Technology, visit www.yoliwebinar.com

Have you heard of these companies? Monavie, Xango, Nuskin, Usana, Tahitian Noni, Freelife, Melaleuca, Max International, Agel, Send Out Cards, Vemma, Scent-Sations, Forevergreen, Pharmanex, Isagenix, Univera, Herbalife, Amazon Herb, Arbonne, Mary Kay, Vitamark, New Vision, Unicity, Mannatech, Oxyfresh, 4 Life Research, Longevity, Life Plus, Forever Living, Forever Green, Youngevity, Nikken, Immunotech, Reliv, Shaklee, Nature's Sunshine, Pre-Paid Legal, NSA, Amway, Quixstar, Cyberwize, Gano Excel, Genewize, Goyin, Kiiera, Legacy, Life Force, Market America, Matol, Neways, Nuriche, Ocean Grown, Qivana, Sibu, Sisal, Stemtech, Visalus, Waiora, Young Living, Zurvita, Trump Network. Visit www.networkmarketingreview.com for commentary and reviews.