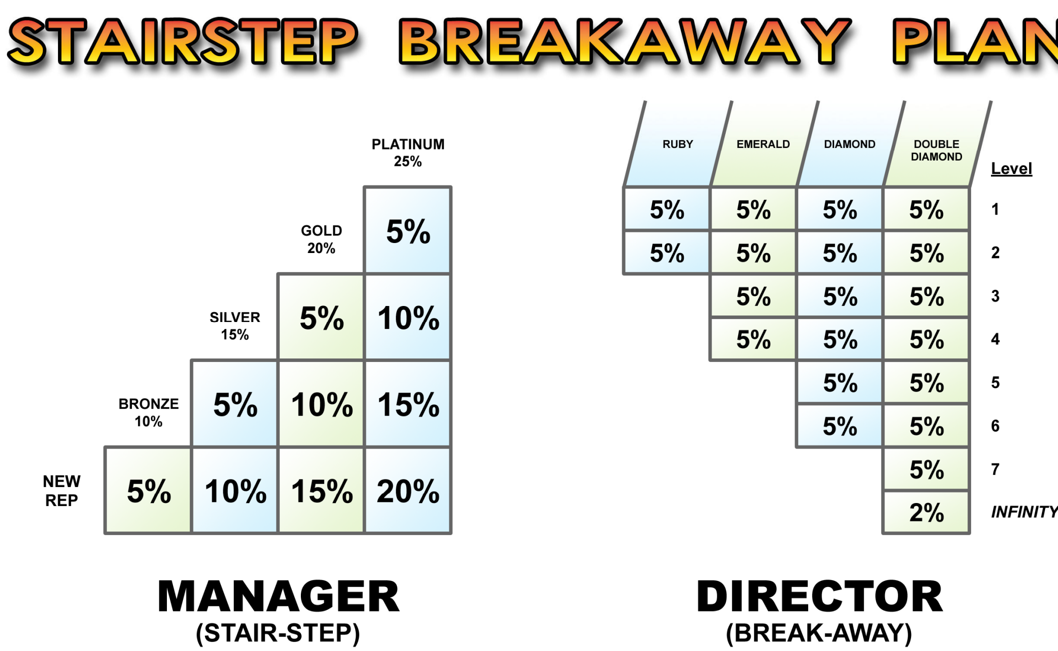
How to Scrutinize an MLM Pay Plan

PART IV: The Breakaway MLM Comp Plan

By Daren C. Falter

The Breakaway

The breakaway plan is historically the most widely used plan in network marketing. It offers the new distributor many options and carries with it some distinctive characteristics. The breakaway plan pays monthly and is characterized by high quotas and high commissions. The breakaway has been called the *full-timer's plan*. In a breakaway, sales volume is accumulated through the end of the month, and checks arrive in the distributor's mailbox around the third week of the following month. The breakaway plan makes up over 39 percent of the companies I reviewed, but most of these programs are fifteen years old or older. There were no other choices in former years.



Breakaway: The good

Unlike the matrix, the breakaway plan allows distributors to sponsor an unlimited number of people on their front line. This fosters a sense of unlimited, quick growth potential.

The Stairstep

In most breakaway plans, there is a preliminary compensation structure tacked onto the front of the plan, called the *stairstep*. As you and your new distributors purchase product volume, you systematically progress to higher and higher commission levels. If you're doing a significant amount of retailing and are sponsoring people who retail the product, you have a chance to make substantial part-time income in the stairstep right from the start.

When you get to the top of the stairstep, you can't progress any further on your own. Your incentive is to promote those below you to your level. As the distributors below you progress up the stairstep, those distributors will progressively make more commissions from their group product volume, and you make less until you're making a typical 3–8 percent, with 5 percent being the most common. The purpose in paying more in the front of the stairstep and less in the back is giving incentive for distributors to constantly sponsor new distributors every month. As your commissions decrease in the stairstep, the product volume you're being paid on drastically increases making up for the lost percentages.

Once these distributors reach your level, they go through a process known as *breaking away*, where they become independent from you, their sponsor. You can still earn commissions on your breakaways, but in order to earn significant commissions you must have a significant number of breakaway distributors on your first level. The more first generation breakaways you have, the deeper your payout.

Some of the more traditional pay plans, and some party plan companies, have a unilevel (we'll explain this soon) type structure in place of the stairstep, but it behaves similar to the stairstep in purpose and in function.

Breakaway: The bad

Here's the sticky part! In order to earn a percentage on your breakaway's group volume (GV), you must fulfill a group volume requirement or GVR (a fancy name for a group sales-volume quota). This quota is made up of the product volume that you personally purchase and all of the product volume that your distributors purchase. However, once an individual in your downline breaks away from your organization, his or her entire downline volume no longer helps you qualify for your group volume quota. If you do not fulfill this quota each and every month with your non-breakaway legs, you don't get a check on your breakaway legs (which incidentally makes up most of your income at higher levels). Some companies have even greater penalties associated with not making the numbers, like losing all of your breakaway legs to your upline! Watching your distributor breakaway is a mixed blessing. You're excited for their success, but at the same time you are disappointed since the compensation plan instantly penalizes you. It's kind of like watching your mother-in-law drive over a cliff in your new Mercedes.

GVRs range anywhere from $300 per month to over $7,500 per month, depending on the company. My research has shown that companies with group volume requirements of $500–1,500 or more per month can develop a significant attrition problem (or distributor fall-out). Companies with volume requirements of $2,000–5,000 or more per month encourage front-end loading, stock piling or garage qualification, and other unethical and unnecessary practices. Front-end loading refers to the action of loading brand new distributors up with more product inventory than they can generally sell within a month's time. When someone becomes "garage qualified" this means they purchased inventory they did not need or could not reasonably retail in one month so they could reach a certain qualification level for increased commissions and recognition. Usually this inventory collects in the garage.

Imagine the number of distributors who join a program expecting to gradually build a tremendous group of thousands of distributors, only to be beaten and discouraged by constantly missing their qualifications for their paycheck. Rod Nichols, author of *Successful Network Marketing for the 21st Century,* states, "I know dozens of people who have gone deeply into debt buying products they don't need, just to fulfill their group volume requirements to get a commission check. This is one reason you find people who have garages full of products. In the industry, we call this 'garage qualified.' The end of the month arrives and you are $2000 short on your group volume requirement. You call around to all your active distributors begging them to place an order, but they've already placed their end of the month orders. So, you break the credit card out and place the order yourself —another $2000 worth of products you don't need."[12]

Because of these characteristics, the breakaway plan has become known as *the sponsor monster plan*. Distributors must constantly bring on new distributors or risk losing their downline. Salesmanship and an aggressive sponsoring and duplication strategy are essential in a breakaway. Using the shotgun approach to recruiting in a breakaway is considered unethical by many network marketing authorities. In other words, many would not be as opposed to this plan if the recruiters using the breakaway plan were more selective in who they approached. Distributors using the breakaway plan should be up-front by letting potential distributors know what to expect. This plan is not for the part-timer, and it is not for anyone with a meek or mild personality. It is designed for the affluent, the highly connected, the extremely ambitious, the charismatic, and the sponsor monsters. These folks can make a bundle!

To be fair, many companies have realized the difficulties associated with breakaway plans and have acted accordingly to make the group volume requirements and other rules easier to deal with. Many plans have changed to become more user friendly, behaving similar to a unilevel plan.

Home Party Plan Compensation

Nearly every direct sales/network marketing company that promotes their product and opportunity through home party plans utilizes the breakaway compensation plan. However, party plan companies reward distributors with different payout percentages. Where a traditional network marketing company will generally pay out half of its commissions to those making the retail sales and the other half to the distributor leaders in the form of bonuses, party plan companies will pay out as much as 60–75 percent to the retailers while only retaining 25–40 percent for the leadership teams. This type of plan seems to work best for the party plan model, though it really comes down to the actual rules and quotas associated with each plan. Not all breakaway plans are created equal, so you must check out the rules, quotas, and penalties associated with each plan.

Breakaway: Overall Evaluation

The breakaway is still the most widely used plan in network marketing, because twenty years ago there really were no other choices. The breakaway is considered the old-school plan. It's a full-timer's plan, designed for well-connected, charismatic, heavy recruiters. For this type of person, the breakaway can be the most lucrative plan in network marketing. Many of the traditional breakaway companies are still recruiting new distributors heavily, especially in foreign markets where there are few other choices. However, the breakaway is more difficult for part-timers and newcomers. Over the last ten years, virtually no top performing programs have selected the breakaway plan. The breakaway plan is a dinosaur, and if it does survive over the next twenty years, it will be to serve the home party plan industry almost exclusively.

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