

Network Marketing (MLM) vs. Direct Sales – Which Is Right For Me?



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Foreward

Back in 2006 I became involved in a home-based business with a health and wellness company. Over the course of 6 months, I spent \$4885 on samples, monthly purchase requirements, marketing materials and so forth. During the same time period, I earned exactly \$807 for my efforts.

Clearly, something was wrong. It's not as if I couldn't find customers...I had generated thousands of dollars in sales! However, I clearly was not being properly compensated for my efforts.

Through further research **I discovered I had made the wrong decision about what type of business was going to suit me.** It wasn't just about the products and whether or not I liked them personally. There's a lot more to it than that, and I wasn't aware of the common features of different kinds of home-based business models, and therefore was unable to make appropriate comparisons.

In fact, I didn't even know there was anything other than network marketing (also referred to as multi-level marketing, MLM, consumer direct marketing and referral marketing). **I wrongly assumed that network marketing was my only option when joining a home-based business.**

So, I got excited about something and I jumped in. Sadly, that is exactly what most people do. I wasted precious time, and a lot of money.

My goal with this article is to educate you about your choices, specifically in regards to the differences between a Network Marketing business model and a Direct Sales business model. I sincerely hope that you can learn which business type will best suit you, and you can avoid the same mistakes I made years ago.

Entering into the home-based business arena is serious work, and requires more than just a wish and a prayer. I hope that you will find this article useful in your research and decision making process. If you do, please let me know!

Warm wishes for your success,

Kara Jankowski

What's The Difference?

The first thing I'd like to explain is that most home business companies are direct sales companies. In other words, an independent distributor sells products directly to the consumer.

However, some direct sales companies use a network marketing business model (referred to as MLM for the remainder of this article), while others use a direct sales business model.

Here's the difference...

In any company, regardless of the product, there is a set amount of profit available for each sale that is created. The profit is what is left over after the company receives their wholesale payment for the product(s).

Some products can have a very high profit margin (up to 80% in some cases), while others have a much lower profit margin (5-20%). Regardless of the actual margin, each product has what I'll call "available profit" to be earned.

In MLM, when each and every sale is made, all of the available profit from those sales is SHARED between you and your "upline".

Your upline is the line of people who got into the business before you. For example, you were brought in by Sue who was brought in by Janet who was brought in by Michael and so on...the line of people can be hundreds or even thousands of people long. Those people are your upline, and every time **you** make a sale, yes, you make some money, but **they** actually make much more money.

Basically, when you work your business, other people gain more out of the deal than you do. Sort of sounds like being an employee again, right?

Sure, someday you could be in a position at the top of the upline and make a higher percentage of the profits, but that can take years of hard work and patience, *years* of sales that you've shared the profits with other people – people you don't even know – people who haven't even helped you grow your business!

With the Direct Sales business model, when a sale is made, all of the available profit from that sale goes to ONE PERSON and is not shared with an upline.

Is that a big difference? You bet. Check this out.

Let's say you make a sale, and your customer buys products valued at \$1300. You earn, on average, 7% of the sale when you're getting started with an MLM company.

In this example, from that \$1300 sale in an MLM business, you can make about \$91. Your upline made more than that because they earn a higher percentage of your sales volume.

Let's look at the same example in a Direct Sales business with a product that offers a high profit margin.

You make a sale, and your customer buys products valued at \$1300. Because only one person receives the profit, and it's not shared with a group of upline members, you keep the entire profit.

In this example, from that \$1300 sale in a Direct Sales business, you can make about \$1000.

Let me ask you...*which would you prefer...\$91 or \$1,000?*

I experienced this situation firsthand with my MLM business. In one of my better months, I brought in over \$5000 in sales, but my paycheck was only around \$200! I had worked very hard all month, only to receive a check that didn't cover my business expenses, let alone pay for groceries or other bills.

This is Reason #1 why I switched to a company with a direct sales business model. If I had made those sales numbers with a direct sales business, I could have earned about \$4000.

Hmmm...I could use an extra \$4,000...could you?

Please note that not all Direct Sales companies offer profit margins this high, which is another reason to do your research carefully. In general, information products or internet-based products offer a much higher profit for the marketer.

Company Performance Levels and Sales Quotas

As you may already know, in each company there are various “performance levels” you can achieve, and at each level, you can earn more money.

But did you know that in MLM businesses, there are very specific sales requirements you must reach each and every month in order to maintain your qualification at your current performance level?

In other words, in order to continue making money and be qualified at a certain level, you must have very steady sales every month. Geez, forget going on vacation or taking off some maternity time!

Requirements vary by company of course. But every company I’ve researched requires one or more of the following to maintain your performance level and your earning ability:

- **Monthly Personal Product Purchases.** Whether you personally need them or not, you must buy products each month, often costing you \$100 or more. I can tell you from personal experience, this is a great way to clutter up your garage or closet!
- **Sales Quotas.** A quota is a required monetary value (also known as volume) of products that both you (personal volume) and your team (group volume) must sell each month in order to continue making money. The amount varies widely and could be from \$2000 to \$200,000 per month or more, depending upon your company and your performance level.
- **Recruiting Quotas.** This refers to a certain number of new distributors (not just customers) you must add to your team each month in order to receive additional income.

Again, I experienced this firsthand in my MLM business. Despite the fact that my company had consumable products, I didn’t have a need to keep buying them each and every month (and neither did my customers). But, I was forced to keep buying (receive products on “autoship”) to stay in the game...and then I ended up with a closet full of products I didn’t need or want.

Quotas are another issue. They can be very difficult to maintain over time. What if you have a family emergency? Or you become ill and need time off? Or what if you just want to take a much deserved vacation?

I mean, that's why we want a home business in the first place, right? So we can spend more time doing what we really want to do, make great money, and not feel the pressure of having to work every single day.

When you're bound by quotas, I can tell you from personal experience that the last week of each month is absolutely gut-wrenching as you try to keep your business afloat. You end up working your business out of the fear that you'll lose what you've already built. That's no way to motivate someone. It's not fun and it doesn't end. Each month, there you are again, up against the quota.

This is Reason #2 why I switched to a company with a direct sales business model. I refuse to “prove” myself over and over, month after month meeting quotas, in order to keep my earning potential.

It can be rare, but you can find companies with no monthly product purchases and no sales or recruiting quotas. Yes, you read that right. No purchase requirements and no quotas. (In fact, I think it's illegal to require product purchases!) There's no fine print here. And, in some direct sales companies, once you qualify at a performance level, you are there FOR LIFE. Talk about liberating!

Work everyday, or take off a month. It's up to you. Now that's why I got into a home-based business!

Downlines And Motivation

In most MLM companies you are responsible for training your new distributors (your “downline”) and keeping them motivated and working. Their efforts and sales will, as you may now understand, be quite important to you in reaching your monthly sales requirements.

Sure, there may be monthly meetings or rallies to get everyone excited, but that “high” lasts about two days, and then it's up to you to keep everyone motivated and working.

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In MLM your paycheck relies very heavily on the sales your downline makes. So you have to continually keep your team members active. Instead of focusing on yourself and your own business efforts, you're forced to become a babysitter and a cheerleader for many other people – people who likely don't have the same work ethic or goals that you have!

Now that's not a very productive way to grow a successful business.

I found that I spent a lot of time training and encouraging people on my team, only to have them quit a month or two later. So not only had I wasted valuable hours training people who later left the business, but I took time away from building my own business.

This is Reason #3 why I switched to a direct sales business model. I don't see why, in a home-based business, I should have to cajole people into action. I'd rather take responsibility for my own income through my own efforts rather than rely on others who may or may not work as hard or as consistently.

I recommend finding a business that offers extensive training for each distributor – training that you don't have to facilitate. Of course, you should expect to act as a guide and mentor to your team, but it should not be your job to hand-hold, train each person A-Z, or babysit to make sure they are doing their business activities every day.

Most importantly, you don't want to rely on your associates to create your income each month. In this way YOU are in control, and that's exactly what I wanted when I left the employment world and decided to work for myself. You want to be in the driver's seat, right?

You may be asking yourself, what's the point of having associates when you're not making money from their activities? Well, what's real nice is that in many direct sales companies, should you choose to build a team (and that should always be your choice, not a requirement), there are incentives in place so you are well compensated if you choose to help others learn the business.

As an example, in some direct sales companies, if you choose to help someone get started and become their personal mentor (not babysitter!), as they complete the training program you can earn anywhere from \$3,000 to over \$20,000. Yes, you read that correctly!

Now you're probably thinking, OK that's great for you Kara, but you've been doing this for years, obviously you're at a top earning level. What about me when I first get started? How much could I possibly make by helping others?

Well here's the deal. In many direct sales companies, once you're through the training program, as I mentioned before, you can be qualified FOR LIFE at the first commission level. When you help someone else through the training program, you can earn anywhere from \$3,000 to \$4,000 per person...and that's just the beginning! In this example I am using the scenario I mentioned above when you earn \$1,000 per sale. Pretty cool huh?

So you can see, in direct sales you can be earning a great income very quickly...even without being at the top of the "upline". In fact, in direct sales companies, there really is no upline.

Samples, Inventory, Paychecks

In most MLM companies, you need to have samples for your potential customer to try in order to get interested in the product. Think these are free? Think again! You'll likely have to buy catalogues, samples, pamphlets, CDs, DVDs and other company literature to share with others.

You'll be buying these samples and marketing materials from your company directly. But if you can believe it, these samples and catalogues **will not** count towards your monthly personal product purchases or your sales quota. Talk about a scam!

Besides samples, you'll of course want to satisfy your customer's instant gratification needs and have inventory on hand for them to enjoy immediately. **So you'll be encouraged to pre-purchase products, before you even know if you'll be able to sell them!**

Then, after all those sales efforts, you have to wait for your company to pay you once a month. Let's say you have a great month. You're all excited with your progress. At month's end, you usually have to wait 2 weeks for the company to process your payment and potentially more time if they mail you a check. So you've worked your butt off for 30 days, only to have to wait another 20 days to receive your small percentage check.

Doesn't seem fair does it?

This is Reason #4 why I switched to a direct sales business model. It is quite possible in direct sales to NOT buy samples or pre-purchase and store any inventory.

Plus, in direct sales, generally the customer pays you DIRECTLY. You may have to search, but you can find companies where you make the sale, already have your commission, then send the wholesale payment to the company afterwards. This may not be typical to all companies, but if you look, you can find it!

Marketing to Friends and Family

Ugg, the dreaded “warm market”. Did you know that an MLM company’s main marketing focus is your friends and family?

They call it “word of mouth” marketing. But what it really should be called is embarrassing!

What this kind of marketing will get you is a reputation that you’re a product pusher. Vitamins, nutrition drinks, skin care, weight loss, whatever it is...people will start to avoid you. And these aren’t strangers avoiding you. These are the people that make up your life!

Everyone will see you coming and think you are trying to sell them something. Some may buy, but secretly they probably feel bad for you and are just hoping you’ll stop bugging them after they bought something from you. And of course, this is all you know about marketing because that’s all your MLM company taught you to do!

“Someone will join!” They’ll tell you. “Just keep at it...they need multiple exposures” they’ll tell you. “They’ll see your success and excitement and they’ll join too.” WRONG!!!

That’s exactly why 90% of home businesses fail...because no one is taught marketing and how to target the correct market!

Your friends and family are NOT a targeted market...and more importantly, they are a finite market.

This is Reason #5 why I switched to a direct sales business model. Some companies actually teach you how to find *targeted, interested* prospects, not push your business onto friends and neighbors. With this type of training, you only speak to people who have specifically asked for more information, so that you spend your time responding to inquiries, not bugging family or making cold calls.

It's the only way to build a business, and keep your dignity at the same time. Make sure you know to whom you are expected to market, and how you will be taught to market your product, or you could suffer the same fate.

Conclusion

I haven't covered every issue you can encounter with an MLM business, but these are the main ones that caused me to turn tail and run.

The way I feel about myself and my business has completely changed. Before, I felt like I was bugging people. Now, I know that I'm helping people.

Before, I felt stressed and under pressure. Now, I'm in control and the only person to answer to is myself.

My business has dignity and integrity, because I'm talking to people who have responded to an ad, and they asked me for more information. I'm not pushing my business, my products or myself on anyone.

Plus, at \$1000 commission per sale I can offer people the opportunity to make some serious money quickly.

With no quotas, this kind of business allows people to live their lives and grow their business according to *their* schedule...not mine or the company's.

I'm thankful for the experience I had, even though it did cost me thousands of dollars. I was able to gain perspective that I can pass on to others, and I do hope this has been useful information for you.

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In closing, as you conduct your research, ask yourself these questions:

- Do I want to leverage my time by marketing a product with a high profit margin, earning **hundreds or thousands per sale**, and keeping that profit myself...or do I want to earn pennies on the dollar and share the profit with my upline?
- Do I want to meet monthly sales and recruiting quotas in order to keep my performance/qualification level and purchase additional products each and every month...or do I want to be qualified for life, have no quotas and have no monthly product purchases?
- Do I want to continually rally my team to make sales and keep them motivated so I meet my sales quota...or do I want to be in control of my own income, plus have significant monetary incentives to guide my team through the company training process?
- Do I want to purchase samples and inventory and get paid once a month...or would I rather get paid first and immediately with no samples or inventory at all?
- Do I want to market to my friends, family and my “100 person list”...or do I want to return inquires from people who have already expressed an interest in my business and products?

I sincerely hope this report has provided you with valuable information that can assist you in choosing the best home-based business for yourself. I can't claim to say one business model is the best for everyone, because we are all unique individuals. At least after reading this article, you'll have a better understanding of your options.

If you're anything like me, you may want to take a serious look at direct sales. My research and experience taught me that with this business model you can make money in larger quantities, and in much less time. There's also a lot more flexibility, which helped me to fit a new business into my busy lifestyle.

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If I can assist you in any way, don't hesitate to contact me.

Warmly,

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