

What Is Network Marketing?

Now that you have examined where you are, the next step in our journey is to arrive at a clear understanding of what the Network Marketing industry is.

Mark Yarnell writes in his book, *Your First Year In Network Marketing*, "Our industry is based on simple word-of-mouth recommendations of products and services; distribution moves directly from the producer to the consumer, which cuts out all the intermediate agents and dealers who have nothing to do with production or consumption. As goods are distributed, the network marketer then receives compensation equal to the advertising budget of most large corporations. We've all known for years that 'word of mouth' is the best form of advertising. Therefore, should it not also be the most lucrative?" (18).

Also, Richard Poe writes in *Wave 3 The New Era In Network Marketing*, "Today's Network-marketing firms often allow distributors to draw commissions from several levels of recruits. In other words, they give you a percentage of sales from recruits who were recruited by your recruits, and so on. For that reason, network marketing is often call 'multilevel marketing' or MLM for short" (7-8).

You've been involved in networking all your life without knowing it! Every time you tell your friends about a good movie, a nice restaurant, or a sale going on in the mall, you're networking by word-of-mouth. The only difference is, in network marketing, you are PAID a residual income for sharing your knowledge. (See below for a complete discussion of residual income.)

In short, in multilevel marketing (MLM) or Network Marketing (NM) you own your own business and you are rewarded by income, tremendous tax benefits, and time and flexibility that a home based business allows. If you'd like to hear more on this subject, click on the "continue" button and I will give you an in-depth discussion of what Network Marketing is. (We'll talk later about additional topics: whether or not NM is a pyramid scheme, what your downline and upline are, and how the NM industry works.)

But let me first ask you a question. What would you rather have--\$100,000 or a penny that doubles every day for a month? You should have said that you want the penny. Because, after 31 days, that penny would have multiplied to over \$21 million through the phenomenon of "geometric" or "compound" growth! In Network Marketing, your downline (all the people that you recruit, all the people that your recruits recruit, and so on) theoretically grows in a similar geometric progression (8-9).

Compounding or geometric growth is the secret of Network Marketing. Albert Einstein even said that compounding interest is the seventh wonder of the world. And by getting involved with Our Company, you can put NM to work for you. Click on the link below to learn more by continuing to the other stepping stones: other presentations as they lead you to the greatest journey of your life.

Network Marketing is not defined in any standard dictionary of business terms. Nor do network marketers themselves agree on what it means. For lack of a clear standard, I suggest the following definition: "Any method of marketing that allows independent sales representatives to recruit other sales representatives as they draw commissions on the sales of those recruits." That commission is residual income.

What is Residual Income?

Residual income is income that you continue to earn for a long period of time as a result of marketing a product or service once. You continue to make money from the product or service every time someone in your organization sells (or markets) that product or service it to a customer. You receive money for work you did weeks, months, or years earlier. When you convince someone new to become part of a network (and, therefore, part of your network), the new person sells the product or service to a customer, who then may also become part of that person's network (and, therefore, part of your network). A person may become a customer (by buying and/or using the product or service) or he or she may become a business builder (by going out to add more people to his or her network and yours). You will continue to be rewarded for the work you did in the past to bring others into the business.

Think of an insurance company. The insurance company sells you a policy and every month that you pay your premium, the company gets a percentage of that premium. The company "recruits" you once but continues to make a monthly "residual" income. When you purchase an insurance policy, the person who sold you the policy gets paid a residual commission every time you renew your insurance. As long as you keep your insurance with that company, the person who sold you the policy is paid a residual income. The same can be said for writers or entertainers who actually perform the "work" once but who receive "residual" income every time the work is shared.

Other kinds of selling involving commissions (such as the work of real estate agents or car salespeople) are not "residual." The person doing the marketing and making the sale is paid only once. Thus, there is no residual income from selling a house or a car.

In network marketing, an average person can create a residual income stream by word-of-mouth advertising of a company's products or services. Most residual income recipients (such as insurance agents) require special talents, education, or both to earn their money. In networking, you don't need a college degree or any

special talent other than the ability to talk to people.

Residual income is the only method that I have ever seen that ensures income and free time to enjoy without additional work once you have an organization and a strong customer base. Linear income cannot promise the same benefits.

What is Linear Income?

What's the difference between residual income and linear income? Why is residual income better? Linear income is income you earn when you work at a regular job. You are exchanging your time and skills for a one-time-pay of whatever amount of money the company is willing to pay for your time and skills. They decide what you're worth-you don't.

Residual income is money that you earn repeatedly, for long periods of time based on a one-time effort. Think of Michael Jackson, Bill Gates, or Elvis. Elvis recorded his songs once, but his estate still makes money from sales of his one-time-effort--even after his death! That is what happens in network marketing. Powerful? You can be sure!

What is an Upline?

Your upline in a company consists of the people directly above you in the organization. In fact, you are part of the upline of people in your downline! Let's say you were signed up by Bob. Bob is then a member of your upline. However, Bob was signed up by Mary, and Mary was signed up by Tim. So Mary and Tim are also members of your upline.

What is a Downline?

Your downline consists of the people who are "under" you in the organization. You have the same responsibility to them that you expect your upline to have to you. Anyone you personally sign up is in your downline. When you help that person sign up new customers of his or her own, all of those people are in your downline. For example, if you sign up Jennifer, and she signs up Louis, and Louis signs up Ewen, all three are part of your downline. Every person they sign up is also part of your downline.

What is a Pyramid Scheme?

I am frequently asked, "Isn't multilevel marketing an illegal pyramid scam?" The answer to perhaps the most frequently asked question in networking is: No, network marketing isn't illegal. Nor are all pyramid structured businesses illegal.

Let me explain. Just about every company, from the U.S. Government, to a phone company, to a McDonalds, uses a pyramid organizational structure. In such companies there is usually one president, several senior vice presidents, vice presidents of different departments (or areas of the world), senior managers, managers, and assistant managers. The layers that exist in this pyramid structure depend in part on how big the company is--but regular employees are always at the bottom of the corporate pyramid structure.

In the American form of government, the President holds the highest position and the heads of each governmental agency report directly to him through a member of the cabinet. Even a social organization, whether it's the Rotary Club, the PTA, or the symphony board, has a pyramid organizational structure. You can see that pyramid structure not only works, but it's also perfectly legal and accepted without a second thought.

However, a pyramid-structured business can be illegal under certain conditions. When a business is structured so that those on top will make all the money, and all the others who participate don't make much, federal law defines it as an illegal pyramid. A business venture where a person must make an investment to get the right to recruit, but there are no products or services sold, or the new recruits only make money from recruiting others to join, is an illegal pyramid scheme. The new recruits must make an investment, but there is no ongoing residual income nor products sold.

Why is Network Marketing Controversial?

Don't be dismayed by the controversy surrounding network marketing. New ideas are always attacked and rejected at first.

In its early days, franchising endured similar abuse from the press and the corporate world. It all started back in the 1950s, when McDonald's, Midas Muffler, and a handful of other daring companies discovered that they could grow ten times faster than conventional firms. Instead of shelling out millions of dollars to build and operate new stores, they let independent "franchises" do it for them. And the franchises had to pay for that privilege. It seemed like a great idea. But the media attacked like hungry barracuda with exposes featuring destitute families who'd lost their life savings through franchising schemes. Attorney Generals in state after state condemned the new marketing method. Some Congressmen actually tried to outlaw franchising entirely.

How quickly things change! Today, franchises account for 35 percent of all retail sales in the United States. Many are among the top-rated public companies on the New York Stock Exchange. Franchising survived the media onslaught for one reason--it works. And it works better than the alternatives. Network marketing will prevail for the same reason. Its inherent strengths give it a monumental advantage over conventional marketing