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The Theory of Network Marketing

To ensure financial success, part-time network markers must choose a network marketing program wisely. The principles of the theory of network marketing provide critical guidelines and appropriate direction in making the right choice.

by **David A. Nelson**

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An understanding of the theory of network marketing assists distributors and prospects to minimize their risk and maximize their rewards. The common risks are loss of irreplaceable time, energy, reputation, and financial resources. The benefits are financial success, residual income, time freedom, individual development, and personal satisfaction. Most of us have heard the familiar stories from aggressive recruiters about how easy it is to “make BIG money fast” in network marketing. Many recruiters want prospects to believe that success is automatic. Most participants in the industry, sooner or later, realize that it takes work, time, and commitment to obtain success in network marketing — it doesn’t “just happen.” Common sense tells us that network marketing is not a “get-rich-quick” system. It certainly is not a “free lunch” program.

> ***Successful networkers get paid for the work they do in establishing a customer base and building a distributor organization in a network marketing company that has a sound compensation plan, quality***

products, as well as stability and longevity.

There are many network marketing opportunities from which to choose. Each one is not suited for everyone. Internalize the principles of the theory of network marketing and how they compliment each other and work together in harmony to ensure the financial benefits and minimize the risks. Combine that understanding with an evaluation of your own skills, talents, desires, financial resources, and time commitment in choosing a suitable network marketing program to promote.

“Theory” is a body or set of accepted principles or systematically organized knowledge presenting or explaining a clear view of a subject.

Network marketing is a powerful system of distribution and an outstanding business opportunity.

The theory of network marketing is comprised of six interdependent elements or principles. You have most likely heard of each of them individually in your networking experience. If not, you need to become familiar with them. Few have considered them together as a theory and how they synergistically work together. The principles are 1) circles of influence, 2) part-time residual income, 3) a lot, doing a little, 4) geometric progression, 5) duplication, and 6) attrition.

Circles of Influence

Network marketing was built upon the idea that we all have “circles of influence” or existing networks of people. These are established and developed as we go through life. Some people have large circles, others small ones. Some people have many different networks, others only a few. Examples are family, friends, neighbors, fellow workers, career-related contacts, school classmates, and community or church associates. Those of our circle of influence with whom we have frequent contact are referred to as our “warm market.” But you must realize that

your circle of influence networks are much broader that just your warm market. These networks are assets to us in many ways.

Network marketing uses the connection of one person to another.

> ***It maximizes the concept of people sharing ideas and information, as well as products and services.***

As we associate with others, we get better acquainted. We share interests, values, and experiences. We visit about what we like and don't like. We refer and ask for referrals about movies, doctors, schools, dentists, restaurants, books, and other products and services. In network marketing, we are paid for making the referral and sale of our product or service within and throughout our circles of influence. When properly understood and applied, this truly is referral marketing.

In network marketing, it's important to work within your circle of influence. It allows new networkers to develop experience and expertise in the early stages of the business when so much is new. There is a greater comfort level and sponsoring success rate when working with contacts who we know and/or they know of us. If an individual feels uncomfortable about approaching circle of influence contacts, a serious evaluation must be made to determine if network marketing is really for that person. A strong belief level is obviously missing. Newcomers to network marketing owe it to themselves and to others to contact people within their warm market and the broader circle of influence.

The major portion of success that a part timer experiences comes from circle of influence contacts. Many are developed on a local basis, but there is usually a "circle of influence" relationship prior to the partnership in the business.

> ***Of course, full-time networking professionals know the***

importance of circle of influence contacting. They do it!

As a part-timer networker who is seeking financial success, you must have the courage to accept this reality.

Part-Time Residual Income

What motivates people to take the time to refer products and build a distributor organization is the opportunity to generate part-time residual income. Most network marketers start out part-time with the hope of supplementing other sources of income. Retail profits are the result of developing a customer base. Override commissions are the result of building a downline organization of distributors. As the business grows and develops, a stream of residual income is earned as a direct reward of selling products and managing a distribution system.

The vast majority of participants in network marketing are part-time distributors — approximately 90% to 95%. The theory is that you can network in addition to your regular work.

If you are a part-time participant either by choice or because you have no alternative, choose a program that makes it possible to achieve financial success on that part-time basis.

Not all programs are alike. With some compensation plans, a part-time distributor is very, very unlikely to ever earn “part-time residual income.” These compensation plans demand full-time effort. Some distributors have developed their network organizations to the point that it has become a full-time, professional career. If this is your goal and it happens, that is wonderful. Nothing is more appealing than to live the lifestyle of a full-time network marketing professional.

But you must remember that the industry is an industry of part-time participants. The principle of the theory is “part-time residual income.” The industry was created to provide an additional or alternate source of income to people. For the majority, it is to create a part-time homebased business. When you speak of “business,” obviously the bottom line if to make money. So, the people who work the business part-time must check out the compensation plan to ensure that it will enable them to make a positive cash flow on their part-time efforts. The most simple and effective way to do that is by doing some traditional cash flow analysis.

The fact that an individual can make consistent, part-time income is very encouraging. To make it residual over the long term is the objective. Learning proper methods and skills enables network marketers to learn and teach the concepts required to successfully build a downline organization. But, the theory informs us that you must be working within a program that accommodates part-time workers. Since the majority is part-time, doesn’t that make sense to you?

A Lot, Doing A Little

Network marketing theory is also based upon the premise of a lot of distributors each doing a little. This is why it’s so attractive to people who want a part-time business. Any one distributor is not required to have a huge retail business to be successful. A retail customer base can be developed through pure networking (referral marketing). Most people believe they can sell a little retail product through their networks. They are usually dealing with friends, associates, neighbors, or others in one circle of influence or another. They also become their own best retail customer by using the products. They love the products and are driven to share them.

As these satisfied customers also see the opportunity to do “a little,” then a lot of people start to accumulate together.

> ***It is necessary that each “do a little” on a consistent or monthly basis.***

When someone perceives that there is a requirement to do a lot of individual product placement or retail selling or massive recruiting, it

becomes threatening, creates anxiety and stress, causes failure, and is not part of what the theory suggests.

A lot doing a little also suggests that front-end loading of products or training materials is not necessary at all. It actually creates a negative experience for most of those that are “front loaded.” With the distribution capabilities of today, there is no satisfactory reason to front end load anyone! No new participant should purchase or be enticed to purchase more than a one-month’s supply of product for personal use or for what they can sell within a reasonable period of time. Sure I recognize the benefit of having some inventory on hand to facilitate retail distribution, but serious front-end loading still occurs and continues to create a “bad taste in the mouth” of many who suffer from its effects. This is one of the reasons why the general public is skeptical, anxious and leery of, and often, downright negative and angry regarding network marketing.

There are distributors in various programs who have created a significant retail business. By choice, they have selected a particular product or service, and as distributors, have focused on making it a retail business. They like this direct selling aspect of network marketing. It suits their circumstances and their desires. They have not concentrated on the network-development side of the business. Others do a little retail business and concentrate on the development of a distributor network. They sponsor a few people (doing a little consistent sponsoring) and create success through their part-time efforts. Their particular circumstances and desires keep them focused on network development and creating the residual bonus income.

> ***That’s the beauty of network marketing. You can find in this business what you want to do, and concentrate on it to the extent that you want to.***

I like network development, as it’s great to experience the rewards of a lot, doing a little.

Geometric Progression

A key to the theory and reality of network marketing is the phenomenon of geometric progression. Geometric progression is a mathematical principle. Geometric progression is defined as a sequence of terms, such as 1, 4, 16, 64, 256, in which the elements progress by a constant **factor**. Each term in the sequence is a **multiple** of the immediately preceding term that is multiplied by the constant factor. In this case, it is four. It is much more powerful than arithmetic progression in which the elements progress by a constant **difference** such as 1, 5, 9, 13, 17. The difference is four, but the progression is dramatically different.

It is this multiplication principle of geometric progression along with a serious focus and hard work that make it possible for a distributor to build a network of 200, 500, 1,000, or even 10,000+ distributors.

> ***As each level develops, the mathematical principle compounds your efforts of duplication.***

What may seem improbable, if not impossible at first glance, becomes a reality because of this multiplication principle and a whole lot of people each doing a little.

An example of this would be if you were to sponsor five people into a network marketing company, and you encouraged each distributor to do the same thing, the numbers would progress something like the following: You sponsor five distributors. With your help, they each sponsor five, which adds 25 new distributors. The total network is 30. The new 25 each sponsor five, which adds 125 new distributors. The total network is 155. The new 125 each sponsor five, which adds 625 new distributors. The total network is now 780. The new 625 each sponsor five, which adds 3,125 new distributors. The total network expands to 3,905. You started to help a few, and it grows to a lot by virtue of geometric progression.

You can see how the numbers keep multiplying, if everyone duplicates the activity. You realize that it will not happen exactly this way. Some sponsor less than five, or whatever the number may be, and some sponsor more. In this manner, geometric progression allows for

distributors to leverage their time and energy by working with a few select people and encouraging them to do the same, on and on, and on, downline.

> ***Make certain that you are able to capitalize on the principle of geometric progression in whatever program you choose to promote.***

This is particularly critical for part-time networkers who are able to build small groups in their first couple of levels, but so often are not paid significantly on the volume that they create. There may be fast start bonuses, but recall that one of the key principles to this theory is “part-time residual income.” The part-time networker must evaluate the residual bonuses that are available based upon what he or she can reasonably develop through the part-time work and the duplication and geometric growth that can occur.

> ***Also, make certain that you can qualify to get paid on the product sales of the distributors in the lower and hopefully larger levels of your organization.***

If you are unable to take advantage of this powerful principle, the theory does not work properly and you may not achieve the financial benefits that you seek.

Duplication

Linked closely to the concept of geometric progression is the principle of duplication. This is a critical aspect of the theory of network marketing. Duplicate means to make an exact or identical copy of or to reproduce.

In order to create a large distributor organization, your distributors must duplicate business-building activity.

It's essential that you establish a simple, productive method for others to follow. If others cannot copy what they see you do, they cannot teach it to their contacts, and duplication does not occur. When duplication is not taking place, the principle of geometric progression does not become reality. Keep what you do simple enough so that those who are new to network marketing can duplicate it.

Part-time networkers can and will duplicate. They must understand more than just how powerful the products of network marketing are. They must have some business training. They must verify that their efforts to build and duplicate can be rewarded with the residual bonus income that they seek. When part-time networkers are attached to the product and then start earning significant bonus income, the business of network marketing gets "into their blood." These start to recognize and fully comprehend the meaning of financial and time leveraging. When that occurs, many of these part-time networkers have the courage and commitment to totally change their quality of life and lifestyle by taking their business to the full-time career level. And that is simply a marvelous quality of living.

You are the leader of your organization. You set the example. You must do exactly what you expect the people in your organization to do. When you do, they follow your example and everyone benefits. However, you must do what you are telling them to do. For example, how can you expect them to talk to five new prospects each week, when you are only talking to one or maybe none? Duplication requires that the network marketing activity is simple and easy to follow. Your downline will duplicate what you do whether it's good activity or bad.

The same follows for product usage. If you are faithfully using the product, your downline distributors will use the product. How can you expect them to be product users if you are not one yourself? Your organization is able to tell just in your testimonials alone.

A great way to foster duplication in your organization is to follow the motto: Take the products! Talk to people! Show the plan!

Attrition

Attrition is the amount of distributor fall-out from a network. When distributors do not obtain the benefits that they seek from their involvement in network marketing, they quit the program. A major reason for attrition is when a distributor does not develop a positive cash flow from his/her efforts in a relatively short period of time — usually within 90 to 180 days.

Often, individuals quit before they have really learned how to be effective in building the business. This is unfortunate for them. Sometimes, they have unrealistic expectations due to over-zealous recruiters and unrealistic propaganda. Other times, the program is too difficult for them to work on a part-time basis and create residual bonus checks, or they find that they do not like the business for one reason or another.

Attrition is a major problem in network marketing.

To overcome it, new participants may need to be cautioned that they need to plan on six to nine months to learn how to do the business.

They also should be given realistic expectations about what results to anticipate. Another key factor in retaining distributors is for the sponsor and upline to give genuine support and training. The sponsor needs to train and support new distributors in such a way that they learn how to do the business, and they reach positive residual cash flow in a reasonable period of time.

The attrition rate in most programs is very high — between 80 and 90 percent. It's a major problem for the industry. To alter the public's perception of network marketing to a more positive image, the attrition rate must be dramatically reduced. One way to reduce the fall-out rate is for people to be aware that they must choose their programs wisely. They should make a business analysis and not respond only to hype and misinformation. They need to make certain they understand what the program represents and requires. Being a distributor in network marketing with the thought of enhancing income or a lifestyle is a business. It needs to be treated as such especially in the evaluation stages.

A key factor to the success of your people and ultimately your success, is that you are committed to the people you sponsor. Give them the proper information and expectations about your program. Be realistic in teaching others what to expect in terms of what it takes to be successful and how quickly income can be generated. It obviously varies from program to program. Don't just sponsor people and leave them to themselves to make a go of the business. Don't just make this a numbers game of recruiting one person after another without providing real support and training. Work with your downline distributors ensuring they understand, and are able to accomplish what needs to be done to obtain success. Don't only tell them, but show them how. Take time to teach and manage them. This is a critical part of the duplication process.

Another key factor in keeping people involved is to help them get bonded to the product. Experiencing the product and being able to convey a personal testimonial is critical. It opens so many opportunities to prospect in the normal course of your daily activities. The more unique and special the product is, the greater the bonding to its use.

Reduce your attrition and you have overcome a major problem of network marketing. It is not necessarily easier or wiser to just keep searching for new people to work your program and leave it to chance if they succeed or not. As a sponsor, you owe it to these people to enable them and assist them in being successful in your network marketing program.

Theory Versus Reality

The theory of network marketing is beautiful in concept — people helping people to maximize their network relationships to produce residual income. If each participant would do his/her share, the duplication principle and geometric progression ensure success.

Residual income should be produced on a part-time basis and financial independence can be achieved through a long-term career commitment.

The theory is not always the reality.

True of the theory is that “what you put into network marketing, you will get from it.” Choose wisely the company you represent and promote.

Realize, too, that you must work the business if you expect to earn money.

You are a distributor. Distribute products and services. Look to develop retail customers. You are a sponsor. Find people to sponsor. You are a leader of a downline organization of distributors — a distribution system. Lead and support them. Be a professional network marketer. Train, support, encourage, teach, and show these individuals how to work the business and be a success. As you effectively do this, you make the theory a reality. You will be a credit to the industry. Understanding the theory and what to expect is important as one considers what programs to represent. Some programs are better suited for certain individuals than others. Do your homework about the program before you invest your time and money. Network marketing is a great business. Be proactive and make the theory of network marketing a reality and a lifestyle for you and those that you bring into the business!

David A. Nelson has been a full-time network marketing professional for some 20 years. He has a successful track record as a distributor and trainer. He has a total commitment to network marketing and the viability of network marketing as a home-based business enterprise for great numbers of people, and not just a select few.

He has a book published called: *Create Your Fortune in Network Marketing: A Part-Time Distributor's Guide to Financial Success*.

Prior to network marketing, he was a Sales Manager for Procter & Gamble and a District Sales Manager for Johnson Baby Products Company. In addition, he owned and operated the David Nelson Securities Schools of Denver and Dallas. He trained sales and management professionals to pass the National Association of Securities Dealers license qualification examinations.

David graduated number one in his class with an MBA from Brigham Young University after earning a Bachelor of Science in Economics. He lives with his wife, Nanette, in Centennial, Colorado. To get more details about "Posturing for Profits," feel free to contact him at dnelson@denveronline.net or 303-694-4151.