

RESIDUAL INCOME: Build It Now!

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Residual Income is another term for “recurring” income. Basically there are three types of income streams that you may have coming into your business. If you do a one-time job, sale or perform a contract, you get paid once and the income stops there. If you do a normal 9 to 5 job, you will continue to get paid as long you continue to work for your employer—often called a linear income. This is the type of income that the majority of workers “enjoy.” Even if you are a neurosurgeon, lawyer or engineer, you are only paid as long as you continue working. You stop working and the bank account dwindles.

The third type of income is the residual or recurring income where you are paid even *after* you have stopped working. For example, let’s say that you wrote a book. You had to go through the tedious task of researching, writing and getting a publisher. However, after that initial investment, and as long as your book continues to sell, you will continue to receive royalty checks.

A majority of affluent people created wealth through a residual income stream. Take the band Aerosmith for example; they still continue to receive royalty from the sales of their records made decades ago. They can even repackage the same oldies and sell them to generate new income. They don’t have to spend time in the studio to record new songs in order to have the cash keep flowing in. This is the most ideal situation of the three. We would all like to work once and get paid over and over again. That is the power of residual income!

The majority of professionals that enjoy this type of income belong to the creative fields such as actors, writers, singers, and inventors. The field of Network Marketing or Multi-level Marketing (MLM) has also been instrumental over the past 60 years or so to make the residual income concept very popular and attractive. Here, you can build a network of distributors, referred to as your ‘downline’, and generate income outside of your own immediate effort. Working for an MLM company is one of the most feasible places where you can generate residual cash, and so we will now take a look at the secrets to being a successful network marketer.

HOW TO CHOOSE A MLM COMPANY

According to the respected journalist, Richard Poe, in his book *Wave4 – Network Marketing in the 21st Century*, Internet Marketing is responsible for moving over \$100 billion of goods and services yearly on the global front. It is therefore very likely that you have already come in contact with some type of Network Marketing product or service. The concept of moving goods through an army of independent distributors has earned its place in the marketing world despite the negative publicity suffered by the industry. Network Marketing is here to stay; the question that remains is, “How do I choose a company?”

Here are some very important pointers that would guide you in the right direction. Any company that you can find passing these criteria will be a great company to line up with.

1. A company that has been in business for at least 5 years and has great financial backing, excellent management and a ‘distributor first’ philosophy. The company should also have a long-term development goal and not just be out for the quick cash.

This may be a pretty tall order to reach but considering that the great majority of start-up MLM companies fail within their first three years you don’t want your income stream to suddenly dry up! It’s no picnic to discover that after you’ve spent time, effort and money to build a solid organization the company closes down because one of those essential elements was missing.

There is the prevalent myth that the best time to join a company is at start-up—the so called ‘ground floor opportunity’—, but if the truth be told, the ground often caves in leaving many people very unhappy. This does not mean that you should wait for five years to see if a company would do well, because logically, this would mean that no MLM company will ever get started. The point here is that you should assess your risk and know that the chance of losing your money is higher with a new company than with a company having a proven track record.

You know the saying that the proof of the pudding is in the eating; just so the proof of the stability of a Network Marketing company is in the duration of survival. In fact, in over 60 years of MLM history and after tens of

thousands of MLM start up companies, only around 42 companies have made it to their 5th birthday.

Any business owner would admit that the first years are the toughest. This is the period when the company is just establishing a footing and income is most likely low. If the company does not have the proper financial backing it is not likely to survive these years. You would not want to join a company that is depending too much on the distributors for survival. A MLM company takes time to build momentum by the very nature of the business - word of mouth advertising, people telling people. Before it reaches top momentum it must have the financial backing to survive the early hurdles.

Customer support for the distributors is also a critical part of the company. If their distributors feel neglected then they will simply not stick around. Especially in today's market where there are thousands of MLM companies beckoning. The distributors are the consumers and salespeople, and to neglect them is to commit certain suicide.

A sad reality of the MLM industry is that there are many scam artists that come along just for the quick cash just before they close shop and disappear. This would require that you do your due diligence such as checking consumer alert websites as FTC.gov and WorldWideScam.com among others. These scam artists will normally emphasize the compensation plan over the actual product—if there really is a product—and apply high pressure sales tactics to persuade you to join the “ground-floor opportunity”. These criminals prey on human greed and have little sympathy for the naïve.

2. High quality (unique if possible), reasonably priced products or services that should be, ideally, consumable so users will have to buy over and over again.

Traditionally, MLM companies are able to produce higher quality products simply because they don't have to pay outrageous prices for advertisement. Just think about the millions of dollar paid per year by companies such as *Nike* to sports stars for a 30 second commercial. This money, if *Nike* followed the MLM model, could go into developing better quality products and paying their workers better salaries. Because a large part of a normal company's budget goes towards advertising, Network Marketing companies will deliver a higher quality product, all things being equal, per dollar spent.

Also remember that you want to be paid continually so you need a product or service that is *consumable* so the customer has to keep refilling his supply. Nutritional and telecommunication companies fit this requirement very well.

Apart from being consumable, another important factor is how ‘needed’ this product or service is. The negative side of pushing nutritional products is that most people are only concerned about their health after it is already failing! (You’ll do well recruiting at the local hospital). If you are marketing a service such as web hosting, medical coverage or legal services you are more likely to have less attrition in your downline.

If the company is selling a product that you can pick up at your local department store, then you’re not likely to do very well. A unique or proprietary product will do better since you’ll have *less* competition—you learn very early that there is no such thing as zero competition although some companies will want to make this claim.

The “acid test” question to apply to the price of the product or service is, “*Would I purchase at this price if there wasn’t a compensation plan attached to it?*” If your answer is “No,” then you are looking at a potential pyramid scheme where a product is just attached to the compensation plan to make the opportunity appear legitimate. In these cases you will always find that the compensation plan becomes the selling point and the product or service rarely mentioned. (Here is an informational article on the subject of recognizing and avoiding such schemes:

<http://www.ftc.gov/bcp/online/pubs/invest/mlm.htm>.)

3. A Compensation Plan that is fair to both fulltime and part-time distributors alike with leadership bonuses for those who build large and productive teams.

We have already mentioned that a successful MLM company will have a “distributor first” philosophy. In no other place should this be exhibited more than in the compensation plan. It takes only some simple arithmetic to see how many sales or distributors you need in your organization in order to be in profit. Most people don’t take the time to do the math and sometimes

are “deceived” by the fancy potential income charts that are put out by the company.

The point here is that you need to read between the lines and the fine print to be sure what you are paid for your effort. Most people will skim this section because it may read like a tax code and who likes to do their taxes? That’s why we hire accountants.

Compensation plans fall into basically *four* types:

- (a) *The Break Away Plan.* This is the oldest and most traditional plan and allows distributors to build and be paid on an unlimited number of frontline associates. When the frontline associates reach a certain predetermined volume they can “break away” from their upline and form their own organization. In this break away plan the leaders are paid on all their frontline and also certain levels down in their break away groups. In this model if you don’t work you don’t eat. You have to recruit in order to be compensated.
- (b) *The Unilevel Plan.* Here you are only paid on a certain number of levels determined by the company. In this case there are no ‘break away’ groups. The larger your frontline the larger will be your total group size. The lower levels would therefore be much larger than the upper ones. Again if you don’t recruit you don’t get a check.
- (c) *The Matrix Plan.* In this plan you are limited to the number of recruits you could have on your frontline. So in a 3 X 5 matrix you’ll have 3 on your front line then 9 on the second level, then 27 on the next and so on. Compared to the two other plans we’ve looked at the matrix plan limits your success to a certain level. What’s so appealing about this plan though is that recruits are told they only need to get 3 and are even promised “spill-over” from a “heavy hitter” in their upline. The results are that everyone joins looking for spillover and never makes any personal effort. Results? Certain failure. A matrix, though limited, can work but the distributors must depend on their personal efforts and allow the spillover (if any) to be just an added bonus.

- (d) *The Binary Plan.* This plan is a special case of the matrix where you can only have two on your frontline, hence ‘binary’. The only caveat here is that many such plans require you to balance both sides of your organization before you can get paid. This is really a trick so that the company can keep your money as long as possible and sometimes forever. Some dishonest companies will start off by opening only one side of the binary—called a ‘powerleg’—as there is no possibility of you getting paid until the other side is opened. By the time the other side is opened many people may have left the company leaving their commission checks behind as well. You are forever left, not only with recruiting, but trying to balance the sides of your team. Beware of such plans!

There are variations of these plans that have come along such as the straight line plan where you are paid on every one that comes in after you. Companies that follow these plans don’t seem to survive very long since most people just join and stand by waiting on their checks. There is no real incentive to work the plan.

Warning: You should always be particularly suspicious of compensation plans that pay out over 60%. This normally means that the product is overpriced, qualification quotas or volumes are almost unreachable or the breakaway structure can rob you of your investment and hard work. If the company uses the breakaway plan you may find your downline disappearing just as you are about to hit the big numbers. If a company intends to be deceptive it will be in the compensation plan; so study it well!

4. Training and solid upline support for your team.

Many companies provide training and promotional materials for their distributors but it is often difficult to strike a balance between product promotion and distributor training. And distributor training normally takes a backseat. You should be wary of companies that charge exorbitant prices for their promotional materials. You are investing your advertising dollars so the company should not seek to make a profit from you here—although many do.

You should seek to align yourself with an experienced leader and learn as much as possible from his or her recruiting methods. Be sure to investigate

your upline because that can be the one factor that determines success or failure for you. Study the company literature to see who the ‘big hitters’ are and join their group. It is said that misery loves company; so does success.

5. A wide and even global market if possible.

You may find a company with all the great characteristics that we have looked at so far and then discover that it is not available in your area—ouch! With the advent of the Internet you find that many more companies are going global. This means that your market reach will be wider and chances of building a solid team greatly improved.

Apart from the sheer geography of the company’s market reach, is the potential customer base as well. For example, many American nutritional companies are aiming for the ‘baby boomers’ who are now in their midlife years and make up a good percentage of the buying public—in means and numbers. This demographic of customers want to look younger and are very health conscious. Any product that caters to their needs will most likely have a ready market.

Another big “bubble” when looking at population demographics is the children of the baby boomers. Look at what they are spending money on!

Choosing a company that has a product or service for which there is no ready market will make it very difficult on the distributor. And in this industry one needs a lot of encouragement.

SECRETS OF SURVIVING AS A NETWORK MARKETER

In the MLM industry attrition rate can run as high as over 70%. This means that the majority of people who try a Network Marketing company don’t survive the first few months! The upside of this is that 9 out of 10 of those who survive through ten years become very wealthy. This industry has produced more self-made millionaires than any other single industry in America. What a recommendation for MLM!

So if this industry has produced so many self-made millionaires, how is it that more people aren’t staying for the long haul? First we would look at

some of the major reasons for failure and then some tips to help you escape these traps.

Reason People Fail

Human beings are complex creatures and so it is always a little risky to make general statements. Over time, however, a pattern emerges and we can get a very good idea why so many people start this business and then drop out.

1. Mishandling of rejection from close family members and their warm market.

When someone is first introduced to the concept of Network Marketing they become very motivated—mainly by the income possibilities—to start recruiting right away. Most companies will teach you to start with a list of your warm market and work from there. Even though this is a logical route, rejection from this group can be very discouraging and most people stop there. This means that the majority of recruits will give up after speaking with their spouses for example.

Only lately has MLM become recognized as a viable and respected profession and many are still quick to cry, “Oh! You mean a pyramid scheme”. This comes because of the negative press that many famous companies have received and the general misunderstanding of the public.

2. False expectations for too early results with too little effort.

Depending on the way in which the business is presented, one can get the impression that there is not much effort involved. I mean, just get two who gets two and you can become rich. When early recruits realize that considerable *networking* and *marketing* is involved in Network Marketing, disappointment quickly sets in. There is *work* involved, and any business that presents a plan to you and says that you don't have to do anything is peddling a lie. All successful network marketers worked for their success.

Many marketers do not factor into their planning the cost of advertising their business. This cost can eat up a good chunk of your investment especially when you are just launching. The idea here is that you have to regard this as a normal business and not just a trial run venture.

3. Lack of focus.

Network marketers have gained a reputation of jumping around and changing companies like they change clothing. At least this applies to those who flirt with success but never reach it.

As I mentioned before, those who survive the early years normally go on to do very well. However, there are many people who are looking for the 'next big thing' and keep jumping from opportunity to opportunity. This normally describes the behavior of those in search of the ever evasive 'ground-floor opportunity'. The rule of thumb here is that you should establish yourself in one solid company before venturing off into other companies. And if you do work more than one opportunity, make them complementary to each other. A perfect example is working a leads company which you'll need anyway to feed your primary MLM company. *In fact, if you find any tools that enhances your business, why not purchase from a company that has a compensation plan attached?*

4. Failure to work an easy to duplicate recruiting plan.

With the advent of the Internet and all the new communication means that it affords, MLM has come a long way from the home meetings and house to house presentations. Doing these presentations was very intimidating to many people and so the recruiting chain often broke along the way. The key here is that if the recruiting machine does not have a system that anyone can comfortably do, it will come to a screeching halt. Good trainers know that a simple system must be in place or the trainer's efforts will not be properly duplicated. If the impression is given that a recruit must be turned into an instant public speaker, giving motivational speeches at the local Hilton, they can be easily scared off.

At the same time, you must take the time to learn the system and become familiar enough with the products that you can tell a friend about its benefit. As a user yourself, this should not be difficult. A caution here is to work the system that has been field tested, rather than trying to invent your own methods. This doesn't mean that you shouldn't be innovative, but there is no use to reinvent the wheel either, so be teachable.

5. Baby-sitting of downline members.

Teaching is surely a part of the game of building a strong team. Some marketers make the mistake of doing too much for their downline members thinking that if they didn't their recruits will leave. This often backfires, however, because the downline members become comfortable and depend too heavily on their upline and never grow strong enough to build their own teams. There is only so much you can do for someone and no more. These spoiled over-dependent downline members can become a liability instead of an asset to your team. So avoid the temptation to micromanage your team; you'll get burnt out. Teach your team members to fish instead of fishing for them.

Secrets of the "Heavyhitters"

Now we come to the positive side of the equation. Ninety percent of conquering a problem is to identify the problem. Even addicts have to first agree that they have a problem before they can be helped. So if we can quickly review the major reasons why people fail we can just avoid those pitfalls. Let us take a look at these pointers:

1. Be prepared to handle rejection. Who said that any kind of selling was easy? But it all comes down to attitude. If you can understand that a rejection of the opportunity that you are so excited about is not a rejection of you as a person, then you are on your way. "No" must be interpreted as "next". This is easier said than done but it's the price of success. The Internet and other new technologies now allow some rejection proof approaches, such as using lead capture pages and autoresponder messages. These methods serve to "pre-qualify" your prospects. There still must come a time when you will have to be in personal contact with your downline members however.

Part of preparing your mind for these 'negative' people is to fill your mind with positive messages. There are many MLM and "positive thinking" speakers that will help you keep your spirits up. You will be surprised to discover the boost that motivational tapes and books can give to your attitude in general. This is one of the benefits of being in this industry—it teaches you to have a brighter outlook on life.

2. Be realistic in your expectations.

To expect too much too soon will only set you up for a possible let down. Accept that this is a legitimate business that requires investment of time and effort and you must be prepared to sow the seeds for the harvest you expect to reap. Who builds a house without first considering the cost?

When you are quoted the salaries of the big recruiters, be sure to ask how much time and money they spent to get to that level. This information will give you a clearer picture.

3. Once you find a reputable company be prepared to stay for the long haul.

This goes without saying but if you expect to succeed you must stay the course. The most successful people in life have gone through very trying times but they stuck with it and left a legacy behind. It is often said that tough times don't last but tough people do. The same is true for those seeking to build a solid residual income. You should commit yourself to at least 3 years before making a decision either way.

Jumping from one opportunity to the next only shows a lack of decision and stability in your planning. Teenagers are expected to fall in and out of love every few months, but married couples have committed for life. Be prepared for a marriage not a fling!

4. Do not make the business more complicated than it needs to be. Stick with what works.

There is always the temptation to improve on the methods that experienced networkers have shown to work. Go with what works, not with what *should* work. If you find a system that has been working just plug into it and squeeze the last drop of success you can get from this. This means that you must show yourself teachable to your upline and be willing to teach your downline members the same system. Success normally comes from doing what works over and over again until it becomes second nature.

Another note of caution is that you should not expect from your recruits what you are not doing yourself. There are many networkers who will give advice that they are not willing to follow. In other words they get their team members to “do the dirty work” for them. This practice takes away from the real meaning of *duplication*—I’m doing the same thing that I’m teaching you to do.

5. Train and then let loose!

The real power of Network Marketing is the power of leverage. Rather than using 100% of your own effort, you are using 1% of the effort of a hundred. If your downline members become too dependent upon you then they will be using 110% of *your* effort. This can easily lead to rapid burnout.

So the key here is to train your frontline members, then train them to train their frontline members. As you gain leadership experience in the business then you can occasionally pick up the slack for a colleague. The important thing here is that your team members understand that effort is required on their part or they cannot expect your support.

Here are some additional insider tips on really hitting the ground running. These ‘secrets’ are learned from the study of those who have made millions in this industry.

6. Talk to many at the same time instead of one at a time.

We just mentioned that the real power of MLM is leveraging your efforts. Did you ever notice that the real successful people in this industry never talk to one person at a time? Just think about it. Your recruiting message or script will be the same for each prospect. You are introducing them to a business opportunity. If you were to use the telephone to do your presentations, how many prospects can you talk to in one day? So here is what the serious marketers do:

- (a) Set up a toll free number with a recorded message and invite callers to leave their number and other contact information.

- (b) Advertise conference calls where many people can join and listen to your presentation at the same time.
- (c) Run a message board on your website where people can ask questions and discuss the business.
- (d) Host an online conference chat room.
- (e) Buy leads and load them into an autoresponder with your prospecting message. Be careful of here to avoid spam complaints. Also confirm that the autoresponder company that you use allows you to use purchased leads.

2. Target other network marketers.

This may seem to go against the issue of not jumping from opportunity to opportunity, but it is much easier to work with someone who has already worked in the industry than a totally new person. There are list brokers who specialize in mailing list of distributors from companies that have closed down. For these individuals you don't have to teach them to fish, they already know, and that can be a plus.

In addition to this, you can expect that if they join forces with you they can bring their entire downline from the old company. Of course, one challenge is that these seasoned marketers will also be more difficult to recruit since they will take a more critical stance of your opportunity.

3. Target business-minded people and entrepreneurs.

Here again you are targeting people who are already motivated and understand what it takes to run a successful business. These individuals would also already be networking in their businesses and therefore would be in a position of influence. Such people include chiropractors, real estate agents, sales people and internet marketers. These professionals come in contact with a large number of people and could be the boost that the organization needs. The more

‘business minded’ your prospects are the more likely you will recruit them.

4. Make a written plan with all your goals and steps to get there.

Psychologists tell us that when we write something down we are more likely to commit to it. That’s why you are required in a contract to place your signature on the dotted line—helps you keep your end of the bargain.

Every business owner should have a goal to which they are aspiring. If you aim for nothing you are likely to strike it. If your plan is to get to a residual income of \$10,000 per month then you should set smaller goals on your way there. Say, \$3,000 per month after the first year, then \$7,000 per month after the second year and finally \$10,000 per month by the third year.

A very important part of writing out this plan is to calculate what is required to get to your goal. So if you must call 20 people to get 1 ‘yes’, and that prospect is worth \$50 per month to you, you will know how many calls you have to make per month to get to \$3,000 per month in one year. Looks simple, but most people don’t do this kind of calculation and so they run their businesses with blind expectations.

Knowing where you are going is one of the easiest ways to get there!

5. Continually work to improve your people skills, especially your listening skills.

At its core, Network Marketing is really people management. If you don’t like dealing with people then this is not for you. You are always going to be in direct or indirect contact with people and so you should brush up on your people skills.

One of those skills that you’ll need to primarily focus on is your listening skills. One of the most common downfalls of MLMers is that they talk too much and don’t listen enough. This applies to the majority of salespersons. You have to always take time to listen to the customer because if you do - they will tell you what they are looking

for! Here are some quick tips to improve your listening skills (particularly on the telephone):

- (a) Well ... just stop talking and listen. That's the toughest part.
 - (b) Learn to view things from the prospect's position. Is your prospect a single mom struggling to make ends meet? Empathize and provide the solution.
 - (c) Restate what the person tells you to be sure that you understand what they are saying. This also makes the other person feel "heard."
 - (d) Try not to interrupt them while they are talking—another hard one.
 - (e) Ask a lot of questions for clarification but not to be confrontational.
 - (f) Avoid jumping to unnecessary conclusions and learn to "listen between the lines."
 - (g) Smile! You'll be surprised to see what this does to your tone of voice.
6. Stay informed in what's happening in the industry by subscribing to at least one professional MLM journal.

There are many magazines to choose from and many books written on the subject of Network Marketing. As an "expert" in the field you should be able to speak of it in a professional way and be aware of the latest trends and technologies available to you. Think of how impressed your prospects will be when you can quote them the latest statistics. This helps you to build immediate credibility with your prospects. If you expect to make \$20,000 per month, think about what other professionals with similar salaries had to endure before they reached that level, a doctor for example—years of medical schools, educational loans and internships! Don't be skimpy on your education.

7. Write your own book or produce Network Marketing tapes and CD's.

This may appear to be a tall order but it is not as difficult as it first appears. First you can publish an ebook even if you have this book written by a professional ghostwriter. You can place a bid at a website such as Elance.com and have writers bid on your job. This book will have your name on the cover and no one has to know that you never wrote one word!

Audio tapes and CD's can be produced at home using a stereo recorder or in a local sound studio. You can also use your computer with the appropriate software and hardware to do this. There are many companies that will reproduce these recordings for you at minimum cost. Having your name on these products can be a real income booster. People want to know that they are following a leader and that is the way you are presenting yourself.

A NOTE ON AFFILIATE MARKETING

Affiliate marketing has been made very popular on the Internet by companies such as *Amazon.com*, *ComissionJunction.com*, *ClickBank.com* and *AssociatePrograms.com*. Strictly speaking, because you are getting a one-time commission for most of your sales in an affiliate program this income is not really residual. The trick here is to join affiliate programs that offer a monthly service such as a web hosting, or membership websites. Remember the key is that the product should be consumable or requires renewal. Also affiliate or associate programs don't normally pay you beyond the second level so you cannot really build large organizations as in a MLM company, therefore your income is a bit restricted. In this case you will have to spread wide—create a large frontline.

Most affiliate programs don't require you to train or support your customers, so this all balances out. In life it's hard to break the “you get what you pay for” rule. It's the sowing / reaping principle.

FINAL NOTE

You should take a look at your income sources and evaluate them to see how many are residual and how many are linear. The key here is that you may want to “balance you portfolio” so you can have income coming in even if for some reason you are not able to work. Especially as a small business owner this can be critical to your survival.

Even one of your fat monthly checks tucked away on a fixed deposit account will provide you with residual income—accrued interest.

How long do you think it will take Bill Gates, the richest man in the world, to make his first billion if all his bank accounts were presently frozen and taken away? That's the power of residual income!

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