

The 10 Most Common Mistakes in Direct Selling

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Direct selling is the essence of free enterprise. Thousands of direct selling companies have sprouted during the last few decades. Sadly, many are no longer in business. I have been entrenched in the direct selling industry for over twenty five years and have seen hundreds of companies come and go. As the years have passed, I have discovered patterns of success and tragic mistakes that weaken direct selling businesses often to the point of failure. While there are many reasons for failure, it is my hope that by understanding ten of the more common mistakes, an aspiring direct selling business owner might have a better chance at success than those that failed to see the picture clearly. These ten common mistakes include:

1. Inadequate planning
2. The wrong business model
3. Poorly designed compensation plan
4. Lack of a good field training system
5. Lack of an effective selling system
6. Inexperienced management team
7. Computer software that doesn't work
8. Listening to the wrong people
9. Poor customer service
10. Growing too fast

While these mistakes are not in any particular order, they carry with them differing levels of severity if committed. For example, while a poorly designed compensation plan can become a major obstacle to the success of the organization, it isn't too difficult to correct the problem by changing to a good one. Lack of funding, however, can quickly force a company out of business within a few weeks when they fail to meet payroll or their commission obligations. Both problems can be fatal, but one is easier to

correct than the other. Let's review these problems in more detail.

#1: Inadequate Planning

Funding Requirements

Let's suppose you want to build a house and have borrowed \$350,000 to complete the project – the most your bank will lend you. You have \$50,000 of your own money to add to the mortgage and expect the house to cost no more than \$400,000. During the construction, you found a few unforeseen problems. While digging the basement, a water spring was found that had to be routed to a different part of the property. Cost: \$8,000. Lumber prices rose 30% from the time you started the project. Cost: \$12,000. You upgraded the carpeting hoping to make up the difference in other areas. Cost: \$9,000. As you near the end of the project, try as hard as you might, you can't get the house complete without another \$40,000. You've already borrowed as much as you can to get the \$350,000. You have no more money of your own. What will you do?

So it is with starting a business. Many well intentioned entrepreneurs embark on a long journey to prosperity full of hopes and dreams. As they journey along the road, they hit a few "water springs", and find many things costing far more than expected. They make a few mistakes which are expensive to fix, and soon find they didn't budget enough money to get the business off the ground. These people always come away from the experience learning a golden rule of business: *Know how much money you need beforehand and secure the funds before you start.*

How does a person find enough capital to start a direct selling business, and how much does he need? Finding the necessary funding will take a well-prepared business plan which is not only reviewed by potential investors and financial institutions, but will also determine the amount of financing needed. No investor will be willing to risk their money without a plan. You shouldn't either!

Common sources for funding include:

- Home Equity financing through banks, savings and loans, etc..
- Venture capital organizations that specialize in helping new businesses. This type of investor or investor group will expect a significant ownership position for taking the risk. Venture capital groups are found by networking with financial planners, accountants, bankers, and merger/acquisition specialists. You may find a few that know the direct selling industry by going to www.dsa.org and looking through the supplier members list (search for "Finance"). Be prepared to give up a healthy chunk of your equity if you ask them to take on a big part of the risk.
- Private or 'angel' investors, including friends, business associates, friends of friends, etc. Find them by networking with everyone you know. Talk to financial planners, accountants, business owners, etc.
- Small Business Administration or other federal and state agencies. These agencies will either loan the money, or guarantee a loan through a bank. In either case, you'll need to be able to pay back the loan on a set schedule. See www.sba.gov for more information.

Know how much money you need and secure the funds before you start!

- Local community bond funding. Some communities, especially those with high unemployment, work aggressively with businesses to acquire funding for starting or expanding, especially in areas of high unemployment. Contact local county and state agencies to see if programs are available in your area.
- General bank financing. Banks will often lend based on credit history and assets with a personal guarantee of the business owner or another credit worthy third party.

Don't become impatient and launch the business without the necessary funding! How much funding is necessary will depend on your business plan. Some companies start for as little as \$50,000, while others find they require several million dollars. Your business plan will tell you how much you need.

Lack of an effective Business Plan

A business plan is a "first creation" of the business, just like an architect's blue print is the first creation of a beautiful home. A good architect will plan out every detail of a home long before the first shovel of earth is moved. So it must be with any business. You must become a business architect before you can build the business. Companies that are successful without a plan gain their success more by accident and luck than by design and thought.

A key benefit of the business plan is that it is often used to attract potential investors, lenders, and vendors. No investor will be willing to risk their capital on a business venture without a well-designed business plan. You shouldn't either!

Investors have plenty of other candidates to consider who have prepared a compelling business plan. You compete with those other candidates so consider your business plan much like a resume – you want to give them a compelling reason to pick you rather than the others they are considering.

As you establish credit with vendors, they will be more willing to grant credit if they can review a well-prepared business plan. Remember, that any credit granted by vendors reduces your starting capital requirements; if your manufacturer is willing to extend 90 days terms for \$100,000 of product, you will need \$100,000 less to start.

A business plan should include:

- An Overview: One or two pages describing the business will help a potential investor become interested in learning more of the opportunity. If an overview is missing, few investors will be interested enough to take the time to read the entire plan. The overview should describe the products or services being sold, the principals involved, funds required to launch, and estimated return on investment, both conservative and potential. It should also include an exit strategy for initial investors.
- Background of Management Team: A summary resume of the owners and executives of the company is a critical part of a business plan that will be read by investors, banks, and other trade creditors. A common expression among investors is ‘bet on the jockey, not on the horse’. In other words, the strength of the management team is often considered as being more important than the company, product, or compensation plan being offered.

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- A mission statement that clearly identifies what the company is all about should be included. It's been said that *distributors will work for money, but kill for a cause*. Your mission statement should be something you can proudly display in literature or on a wall plaque. A corporate motto might be taken from the mission statement. Most mission statements are expressed in one or two paragraphs. Find samples of mission statements in annual stockholder reports of many public companies. There are a number of books available that also teach how to write and use a mission statement.¹
- A product description section describes your products and what makes them unique. This is called your ‘Unique Selling Proposition’ or “USP”.
 - Goals and objectives should be identified and each should spring from the mission statement. Goals might reflect the level of customer satisfaction, order turnaround, staff efficiency, but most certainly sales and profits.
- A market analysis must be done to determine the potential of the product or service, priced as it is to be priced (based on end user pricing rather than wholesale pricing to your sales force). The analysis should address market demand, similar products and how they have been accepted and marketed, competition, etc. This information might be found on the Internet, in libraries, universities, and other business consulting groups. The Small Business Administration has access to large amounts of information and people who can get the information for you. Many universities have business students who would love to do

market research for businesses, often at no charge, for their MBA requirements.

- Your recruiting & marketing plan explains how you will build your sales force and promote your products. What sales support materials are required? Who is your target audience? How will you reach them? This is not your compensation plan.
- Operational plans: How much office space will you need? How many employees will be needed to handle the expected business volumes? Warehouse space, telephone equipment, initial product orders, printing, distributor kits, videos, and scores of other issues must be addressed in as much detail as possible. This section may be the most important section of all and is usually the one people try to gloss over. It's more fun to make sales projections than to figure out how much office space is needed. Yet, one major mistake in this area can cost tens (or hundreds) of thousands of dollars. This part of the plan takes time, often several months. Time spent here will pay huge dividends in the future.
- Projections: Profit/Loss and cash flow projections are critical to every business plan. A competent consultant or accountant can assist in this effort by identifying common areas of expenses for new start-up businesses. With computer spreadsheet programs like Microsoft Excel, many different scenarios can be created once an initial spreadsheet format is built. Always prepare a pessimistic "worst case" scenario, a middle of the road scenario, and an optimistic (but realistic) best case version. As you develop your business plan, always plan on the conservative side, but be ready to scale up into the more optimistic version should the need arise. Remember that

Know your risks. List your assumptions. Address each one directly.

if your investor has read the overview, the next thing he'll want to know is how much money is needed. These projections are critical to a prospective investor.

- Return on Investment Analysis is important for those investing into the business. This is why they would want to take the risk. Attractive charts and graphs are essential. This section answers the investor's question of *what's in it for me?* Remember that you are competing for their money against other options they will evaluate like yours. Investors are quickly turned off by hype so be conservative in your estimates.

- Risk Analysis: Careful study of the each known risk and the assumptions involved should be explained in this section. While not intended to "turn

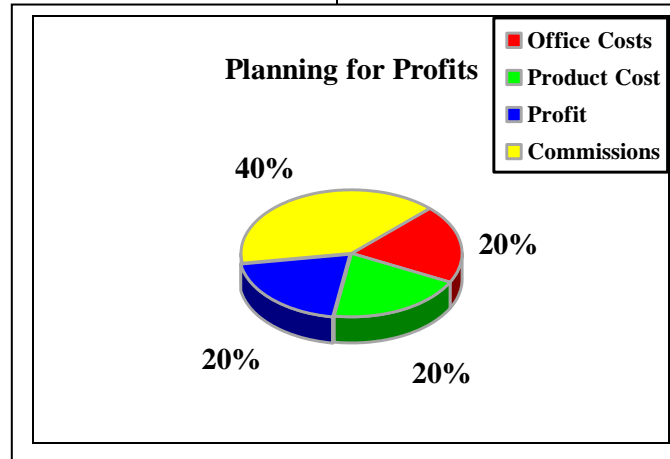
off" a potential investor, most investors will do their own risk analysis but with only the bits and pieces of information available. This is an opportunity for you to address the potential concerns of an investor in a positive and controlled fashion. If you don't need an investor, this section will make your business plan more bulletproof. No plan is viable that hasn't addressed the potential points of failure and risk. If an investor finds that you have overlooked some key areas of risk, they will assume you are headed for failure.

Once the plan is complete, bind it so it can make an attractive presentation. Do not include your proposed compensation plan as it would only confuse the reader in most cases. Include a table of contents, index tabs, and an impressive cover. Don't put the plan on the shelf! Use it in each manager's meeting, refer to it like the corporate bible. Change it when needed, but follow it carefully.

Profitability

Part of the business plan, of course, is to plan to be a profitable company. It's amazing how many companies fail to plan to be profitable. Here's a general breakdown of how income is used in direct selling companies:

- 40% of income for commissions to the field
- 20% of income for cost of goods or products
- 20% of income for administrative expense such as payroll, facilities, utilities, etc.
- 20% of income for profit



While the above numbers are very rough, they have proven to be a target that many successful companies have set. Your numbers may vary considerably from these. The profit you make on each sale will be a primary factor in determining how much you should allocate to each major category, especially commissions (discussed later).

#2: The Wrong Business Model

The world of direct selling has a variety of business models. The model you choose will determine the type of compensation strategy you employ, how you sell your product, and how you grow the business. For example, Avon's business model relies mostly on retail sellers using catalogs to sell their products to customers. Melaleuca and Arbonne, instead, have thousands of customers who signed up as distributors to buy their products at a substantial discount off retail. They have few people buying their products at the

full retail price. Pampered Chef and Tupperware rely extensively on the home party to demonstrate their products to customers.

These three examples of different business models for direct selling have a profound effect

on every aspect of how their business is operated. It will be the same for you. Choose your model wisely!

It's one of the first decisions you will need to make. That decision determines your method of selling, your compensation plan, your product pricing strategies, your marketing strategy, the

growth rate of your business, your training systems, and your internal operating procedures.

#3: Poorly Designed Compensation Plan

A compensation plan that fails to motivate distributors can become a brick wall to the growth of your company. Some people believe that the greatest key to success is a good compensation plan. While there is some truth to this, I have also observed a few successful companies reach very enviable sales volumes with poorly designed compensation plans. But the truly successful companies always have a sound compensation plan.

At the heart of the issue is the question *what makes a compensation plan good?* Let's address a few points:

Reasonable compensation percentages. Most compensation plans of today pay between 25% to 45% of company income to field distributors. If a company promotes a plan paying only 20% or so,

they may have a hard time recruiting and keeping distributors. They may find great difficulty competing in the marketplace against other direct selling companies.

How much can you afford?

Look at the table below (an expanded version is found at www.danjensen-consulting.com). If your markup from your product cost to your retail price is 500% (5x) and a distributor makes 25% for selling the product (retail profit), it shows that you should be able to pay about 28% of wholesale (wholesale is revenue to the company on the sale of each product to a distributor exclusive of tax and freight).

| | 3x | 4x | 5x | 6x |
|--------------------------------|-------|-------|-------|-------|
| Retail Price | \$100 | \$100 | \$100 | \$100 |
| Wholesale | \$75 | \$75 | \$75 | \$75 |
| Retail Profit to Distributor | \$25 | \$25 | \$25 | \$25 |
| Upline Payout | \$15 | \$18 | \$21 | \$24 |
| Upline Payout as % of the \$75 | 20% | 24% | 28% | 32% |
| Product Cost | \$33 | \$25 | \$20 | \$17 |
| G&A Expenses | \$15 | \$15 | \$15 | \$15 |
| Profit | \$8 | \$13 | \$15 | \$15 |

Be sure you know the true long-term cost of your compensation plan before you announce it. Your estimate of the percent of sales you will pay out should be done at “maturity”, usually about 4 to 8 years from launch. A direct selling company’s compensation plan payout is mature when:

1. Almost all volume is deep enough from the company (at the top of the tree) that it does not run out of people to pay commissions to. Shallow volume never pays out the full commission because as commissions are calculated upline from sponsor to sponsor on each dollar of volume, it eventually hits the top of the tree before all commissions are paid. In a

mature company, this almost never happens.

2. There are some top leaders who have achieved the top recognition title or rank and qualify for the maximum commission payout.
3. The payout of the plan is stable for six months, within 0.5 percent month-to-month, adjusted for seasonality, if any.

It takes experience and a good analytical approach to accurately project plan payout at maturity. Some may need to call upon a competent consultant for help who has done this before.

Design it for the part-timer: Unfortunately, many plans are designed by direct selling “big hitters” for direct selling big hitters. Yet DSA surveys show that 95% of distributors are part-timers. While a sound understanding of the principles employed in a successful compensation strategy is essential when designing compensation plans, one must never forget that ordinary part-time people are the ones who must be motivated by it, more so than the “big hitter”. Plans designed for the part-timer always generate bigger checks for your full-time leaders.

Design it for the long-term. Changing a compensation plan is costly in terms of lost momentum and distributor commitment. When a distributor recruits another person, the compensation plan is often a significant part of the recruiting process. They build their business according to the rules of your compensation plan. To change the plan later will often devastate them. Most people don’t handle “change” very well. Some may perceive the change as a "bait and switch" tactic. Avoid designing a plan that works for now but that you expect will need to be replaced later. That approach will eventually hurt many of the distributors who build your business and may ruin any positive momentum you build in your early years.

Don't copy someone else's plan. While you may want to have the same success as another company, don't fall prey to the temptation to copy their compensation plan. Rarely will it work well for you and can often be a disaster waiting to happen. Do you sell the same products as the other company? Are your margins the same as theirs? Can you afford to pay out as much as they can? Is their business model the same one as yours? It is not uncommon for me to hear a prospective client tell me how they would like a plan like XYZ company while knowing that XYZ company has asked me to help them fix their plan because it isn't working for them anymore. Don't copy another company's plan.

Avoid "fad" plans. By staying within more traditional plan concepts, plans that have proven themselves over the years, a new direct selling company can be innovative but still have a plan that has long-term viability. Stick to proven plan approaches that won't need to be changed as new fads come and go.

Avoid recruiting "heavy hitters". These very successful direct selling professionals can bring tremendous short term success but they can also be a major cause for failure when they grow bored with your company and join another, often taking many of their downline with them. Wise companies always build slowly for the first year or two until they have the critical mass and experience to handle big increases in business volumes. Don't design your compensation plan to focus on attracting these heavy hitters. If a 'heavy hitter' wants to work for you, then allow them to do so on the same terms as any other sales representative. Avoid offering special deals as inevitably the rest of your sales force will hear about it through the grapevine and you'll have egg on your face!

Design the plan around the behaviors that build success. Remember that a compensation plan should be designed to compensate and reward the producers while not rewarding the non-producers. What one man receives without working, another man works for without receiving.

A compensation plan should provide incentives for the "Five Golden Behaviors":

Those that experiment with the compensation plan are asking for frustrated distributors to join other more stable opportunities.

1. Product retailing
2. Recruiting
3. Building managers
4. Building leaders
5. Retention and consistency

These Five Golden Behaviors are the basis of every successful compensation plan. Compensation plans that perform poorly, do so because they fail to reward good behavior. You can read more about these Five Golden Behaviors at www.danjensen-consulting.com.

#4: Lack of an Effective Field Training System

You need a system for training your sales force. A "system" is a process or approach that is both duplicatable and provides predictable results. Even with the world's best products and the industry's best compensation plan, without field training you won't be going very far. There are two key elements in developing human behavior:

1. Motivation: "why should I do it?"
2. Competence: "I don't know how to do it!"

These two key concepts are critical to your future success. Once you train your sales force and give them a great reason to work (motivation through the compensation plan), your business will grow.

How does one develop a training program or system? You rely on people who have done it before. Find people with experience training direct selling distributors how to sell, recruit, and build successful businesses. How can you find these people? There are a number of competent consultants available to help. Look at www.dsa.org for supplier members who are consultants that do field training. It will be one of the best investments you make.

#5: Lack of a Selling System

As noted previously, a system is a process or approach that is duplicatable and provides predictable results. A selling system, therefore, is a method of selling that you can train to your sales force that provides them with consistent sales success. What are examples of sales systems used in the direct selling industry?

- Party Plan (most common)
- Catalog (Avon)
- Office parties
- Automatic monthly shipments to customers (Melaleuca, Nu Skin)
- Door-to-door (Southwestern)
- Lead follow-up (fairs, referrals)
- Free video with follow-up
- Free gift or sample

If you fail to develop an effective selling system, your distributors will try to develop their own and, for the most part, will fail. Your attrition rate will be high and your business will not grow. An effective selling system is essential to your success. It also allows you to exert some control over your product message to avoid unfounded claims that might put your company in a bad light.

#6: Inexperienced Management Team

No business can rise to the pinnacle of success and sustain it without effective management and leadership. It's been said that *leadership is doing the right things. Management is doing things right.*² You need both. Yet, the graveyard of free enterprise is littered with the bones of companies who were poorly managed and poorly led. Most often, the mismanagement started with an enthusiastic business owner with little or no direct selling or business experience believing that he or she could handle the job. Statistics show that across all industries 80% of new business startups end in failure within their first year. While there are many who launch businesses successfully, there are few who have the skills to *sustain the success*. Make no mistake, direct selling businesses fail from the top down, rarely from the bottom up.

A wise business owner recognizes that there are people he can hire who are better than him or her in many areas of the business. He seeks for these people. He must then empower them to do their job effectively. Don't hire skilled people and then ignore their wisdom and talent!

The ideal role of the business owner is to lead and then get out of the way of his effective and competent managers who are empowered to handle the various departmental needs of the business. Leadership becomes one of planning, reviewing results, accountability, promoting and motivating... selling the vision! Let managers do their job according to the business plan which should be the yardstick by which the managers are accountable.

Training

What NBA basketball team would recruit a new player, place him on the floor his first day, and expect him to perform like the rest of the team? Without training with the rest of the team his performance at best would be mediocre. At worst it would be disastrous and the game would be lost.

So it is with any new manager or employee, especially if the whole staff is new as in a new business launch. Who should train them? What should they be trained to do? How do we know if they have completed their training? These questions need to be addressed individually:

Who should train new employees?

Don't let the old adage, *the blind leading the blind* be said of your trainers. Find very competent people to lead and manage each department and have an experienced general manager orchestrate the various departments like a symphony. Experience in direct selling is vital in most key roles. Don't be led into the trap of saving money on inexpensive workers in the beginning; it will cost far more than it saves.

To find experienced and friendly people to do the training, look to professional consultants, the direct selling Association (DSA), and other direct selling business owners for names. Advertise in industry publications such as Direct Selling News (www.directsellingnews.com). Executive search firms can often be fruitful as well. There are several firms that specialize in direct selling talent which can be found in the supplier members list at www.dsa.org. Many people find they must hire from outside the industry and train them on the principles of direct selling because experienced

direct selling people are hard to find. If you do, plan on them having a steep learning curve.

What should they be trained to do?

As an experienced person is hired to supervise a department, their first task is to design and document a "system" or method of operation. For example, to process sales orders, a diagram of how an order must flow through the office should be created. Exceptions should be noted with a flow chart or diagram to handle each case. What do you do if the credit card is declined? What should a warehouse person do if some of the products ordered are not in stock? Every conceivable problem must be documented in advance with an appropriate solution. Policies need to be documented and organized into a handbook for the staff. These policies might even be put on the office computer system for instant look up. Professional direct selling consultants can be an invaluable source to help prepare these flow charts and documentation.

Once the systems, policies, and procedures are documented, training can begin. With documented systems in place, training

proceeds quickly and thoroughly. Without systems, policies, and procedures, training can never be complete, and takes many times longer.

How do we know if the employee has been trained?

An evaluation process should be established which takes a new employee through a sequence of duties and responsibilities. For example, a distributor services rep might not be allowed to handle commission related questions until they have explained the compensation plan to the department supervisor thoroughly, top to bottom. Each department must also establish a minimum level of competence before allowing an employee to perform their assigned tasks alone. Until then, they are "buddied up" with another peer or

These people must comprise an elite "SWAT" team with an obsession for customer service excellence to field distributors..

supervisor. Some companies have tests that are taken and scored which focus on the various objectives of the job. The best tests focus on *objectives* rather than on the mechanics of the job.

Success comes when:

- Your staff catches ‘the vision’
- They are rewarded for excellence
- They feel accountable to the sales force
- They are empowered to succeed
- The barrier between office staff and the field is gone... it can never be ‘we’ versus ‘them’, but rather, ‘us’.

#7: Computer Software That Doesn't Work

In the section on training, I addressed the need to have good "systems" that, if followed, comprise the methods to handle each type of business transaction, whether the transaction is a sales order, a phone inquiry, a complaint, or the return of product for a refund. Computer systems in direct selling companies become the glue that binds the office departments together, a "core" around which the business is built. No successful direct selling company has ever sustained their success without a well-designed computer system behind it. A well designed software system builds bristling barriers to competition. Likewise, there are many direct selling companies that have failed due primarily to the lack of a good computer system. Don't let your new venture become just another statistic. Choose your software supplier wisely.

No successful direct selling company has ever sustained that success without a great computer system behind it

What does a good direct selling software system do?

The software determines how you run your business. If the software can't do it, your business can't do it. The equipment that runs the software is of little importance in comparison. At a minimum, your software must do the following:

- Manage your genealogy or downline structure
- Calculate commissions with perfect accuracy
- Calculate incentive awards such as trips, recognition prizes, etc.
- Distributor order processing
- Party plan order processing (if party plan)
- Order fulfillment and shipping
- Monthly automatic order shipments (if required)
- Customer service support
- Accounting (general ledger, payroll, etc.)
- Product returns and exchanges
- Inventory control
- Credit card processing
- Electronic commission deposit processing
- Distributor web access
- Sales tax processing (in the USA only)
- International currency (if more than one country is planned)

Your procedures and policies will have to conform exactly to your software or you will be forced to change the software, sometimes at considerable expense. This is one reason it's so important to wisely choose the software you use.

One of the greatest mistakes companies can make in this area is to think they can save money by writing their own software. Not only does this take years to do, but it can never reflect the experience and know-how that packaged direct selling software contains. Why reinvent the wheel? Would it be worth the risk of losing the

business to poorly designed software resulting in incorrect commission checks, errors in tracking a person's downline records, lost orders, and so forth? Those companies that elect to write their own direct selling software often find later on that it cost much more than it would have cost had they purchased it "off the shelf". They often find that they are vulnerable to the programmer who wrote it. What if he moved away or became injured or sick? What if he took another job at a higher wage? Never let someone convince you they can program a direct selling software system in weeks or months. It's never been done successfully before. Why should you believe it could be done now?

Software companies that specialize in direct selling have spent many years writing their software so that it works right the first time, every time, and they offer it to the public for a small fraction of what it cost them to create it. It's the best money you'll ever spend. They also provide a support team to make sure you send out your commission checks on time, every time.

How do I choose a good direct selling software package?

While this paper does not have the space to address this subject fully, a few suggestions should be noted:

- Choose a reputable vendor. There are many fly-by-night software companies that make many claims of experience, know how, and software gadgetry. Don't be taken in by "eye candy" – software that looks good on the surface but has little substance behind it. Unless you are willing to be a guinea pig (and put your business at risk), choose a vendor that has a proven track record. Track records are built over many years of working with direct selling companies, not just selling a software package a few times. Indeed, having only a small handful of clients may speak more about a software company's persuasive abilities than

their actual know how and skill. *Above all, check out at least six references.* Remember that vendors will be eager to provide only their best references. Be sure some of the references are relatively recent. Always get the names of other companies from these first references that you might call. You might be surprised to find a different story when you call companies not included in the first reference list.

- Visit the software company's office. When you choose a direct selling software package, you not only choose the software, you also choose the vendor's support team. It's a marriage, of sorts. If the vendor is not able to provide support services acceptably, what will you do when you need to change your compensation plan or add a new input field to the order entry screen? There is only one constant among all direct selling companies - they constantly change things! And your software will need to be changed as well. While at the vendor's office, meet the vendor's people that will service you. What kind of people are they? How long have they worked for the vendor? If you find they are relatively new, either the vendor has little experience, is growing too rapidly (in which case you may have trouble competing with other clients for good service), or has high staff turnover. All these can mean trouble for you as the vendor may not be able to handle your needs quickly and competently. Be willing to pay for experience and competence. You'll pay far less in the long run. If you think knowledge is expensive, try ignorance!
- Avoid very small software companies with a small handful of employees. Small software companies, to compete with larger and more established firms, must offer software at bargain prices. This often puts them on shaky financial ground during their most critical years. Many direct selling companies, trying

to save money by purchasing software from these small software houses, find themselves virtually abandoned later on when they need assistance. The problem is that servicing one highly successful client can consume almost all of the human resources of a small software company leaving the other clients out in the cold. It can take months (or years) to train competent software technicians on a direct selling software package. The more deadly problem, however, is that smaller companies tend to go out of business without warning. The direct selling industry is especially brutal on small software companies and has seen many software firms close their doors leaving their clients high and dry. If you value your business, stay away from the small vendors and stick to those with staying power and track records.

- Buy a software package that allows you to create your own reports. Many packages force you to live only with those reports they put on the menus. There is a wealth of information inside your computer database, but with some software systems you can't get it out. It's like having money in your bank that you can't withdraw!

- Make sure the company can program your compensation plan. Compensation plans are complex and take massive amounts of experience to program properly. When you have your tax return prepared, do you go to an inexperienced person, or do you find the most competent one you can find? Compensation plan programming is not something inexperienced programmers can be trusted to do.

When you have your tax return prepared, do you go to an inexperienced person, or do you find the most competent one you can find? Compensation plan programming is not something inexperienced programmers should be trusted to do.

- Do you plan to expand internationally someday? If so, choose a software package that incorporates international issues such as multiple currencies, language translation, cross border sponsoring, V.A.T. tax reporting, and foreign address formats. Is the software also available in other languages so your foreign speaking staff and sales force will not all need to speak English to use it? If you invest in a software system that does not handle international currencies, the cost to change it will usually far exceed the cost of the software itself or necessitate replacing it with a completely new system.
- Buy software that can handle high growth environments. While personal computers can work for starting a new company, they are not cut out for larger successful direct selling operations. Most large direct selling

companies use large UNIX based minicomputers with several hundred PC workstations networked together. Most software that runs on a PC cannot be run on UNIX minicomputers. In

either case, if you expect to be successful, don't limit yourself by choosing software that only runs on PC computers. Some software providers will rent you space on their powerful servers. This may be far less expensive than investing in your own equipment and can work quite effectively in the crucial startup phase when funds are tight. Many well established companies prefer this approach, too.

- Compare features. Software is designed to handle specific business issues and often has a great deal of difficulty dealing with matters outside the original design. It's difficult to force a software package to do things it was

never intended to do. For example, a software package not designed to handle multiple currencies or cross-border sponsoring may prohibit a company from expanding internationally. Wise computer buyers compare features and capabilities, side by side, of one package to another. Ask the vendor which features they consider are unique to their package compared to others. Like a car missing its engine, a software package that is missing an important piece is not a bargain at any price. As you compare software, use the features list of the one that has the most to offer and compare the features of the other packages to it, feature by feature. You'll be quite surprised as to how many "holes" the other packages might have.

Remember that you aren't just buying a computer; you are buying software, expertise of a support team, emergency support services (24 x 7, hopefully), programming services and a long-term relationship. Choose your software vendor wisely. Of all the aspects of a start up direct selling business, don't be tempted to penny pinch in the computer area. If you do, you may cripple your chances for success.

#8: Listening to the Wrong People

I am often amazed at how often my consulting clients have taken bad advice from people who know very little about direct selling. As a result, they often make foolish decisions along the way that cost them millions of dollars in lost opportunity.

The direct selling industry is a unique type of business. For the most part, things that do well in conventional business models do well also in direct selling. There are, however, many very unique aspects to direct selling where this is not

the case. Here are some examples of what not to do and why:

- Retain a local attorney to deal with direct selling specific issues. This would be like hiring a foot doctor to do open heart surgery.
- Have a successful distributor from another company write your compensation plan. Distributors who have built successful businesses will know the compensation plan of that company. They will have very narrow experience with limited perspective and will, in most cases, design a plan that will not work well for your unique business. They don't know what they don't know and often have little or no corporate experience to balance their field perspective.
- Hire a computer consultant with little or no experience in direct selling to help you choose or design your software system. Direct selling has unique requirements and business practices that require specialized skill and experience. An inexperienced consultant will not know what questions to ask nor which issues are more important than others.
- Hire a VP of Sales with no previous experience in direct selling. Your VP of Sales will be the person responsible for working with your sales force. If he or she has no experience in direct selling, how will they teach the sales force how to build successful businesses?

In summary, find competent people who have experience in the type of direct selling business you have, remembering that there are many business models out there. These are the people you want to listen to. Remember also that what you do not know today will often be the cause of your grief tomorrow.

#9: Poor Customer Service

One of your most critical departments is the Distributor Services Department. Each person in this department will handle problems, complaints, inquiries, and a thousand other issues that arise from your sales force. Your sales force are all volunteers and will quickly fire you if they are not well taken care of. Your Distributor Services Department must consist of an elite "SWAT" team with an obsession for customer service excellence to your field distributors. They must be trained by those with a similar obsession for excellence. A few entrepreneurs try to rely solely on the Internet to handle questions and concerns by distributors. *Don't fall into this trap!* direct selling is a relationship business. Yes, you should use the Internet to take care of some of the needs of your sales force, but you can never build relationships and loyalty through the Internet. That takes person-to-person contact – the lifeblood of this business. You will also find that some of your sales people are not comfortable using computers. Most importantly, do not outsource this function! Nobody will take better care of your precious sales force than you will.

Many companies enter the industry thinking they only sell a business opportunity and some great products. They soon learn that they sell something more, something of immense power: *customer service*. Distributors are fickle and seem to join the company that offers the most. They stick with the company that keeps them happy. Those who have shopped at Nordstrom's soon learn the power of customer service excellence to build customer loyalty. Some direct selling companies find their average distributor stays active only a few months. Others find it is several years. What's the difference between them? It's not the compensation plan. It's not the

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products they sell. Instead, it is how well the distributor is taken care of.

A Customer Service Excellence Plan

Excellent customer service does not come by accident. It is the result of well thought out plans and hard work. It starts by having a very committed Distributor Services Manager empowered to implement the necessary systems, policies, and procedures to achieve excellence. The Customer Excellence System (CES) must be comprised of at least four areas:

1. Customer Information Data Base
2. Follow Up Systems
3. Satisfaction Measurement
4. Work Load Monitoring

Let's look more closely at each of these:

Customer Information Data Base

In today's modern business, customers have very high expectations for service. When a distributor calls the home office to ask for information, they expect to receive their answer immediately, not an hour later. With a customer information data base, the service rep on the phone can instantly access information that would otherwise take minutes or hours to find. Their answers can be correct because they base their answer on the computer database of information. The goal of any customer information data base is to know everything possible about the distributor that might be the source of a question. From order status to commission problems, the customer service software must provide instant answers to distributors as they call the office.

Follow Up Systems

If 1,000 distributors were recruited this month, and 10,000 distributors had already joined, how many phone calls would they place with the home office? Most likely, well over 1,000 phone calls would need to be answered by professional, courteous, and competent office staff during the month. Of the 1,000 calls, how many would require a "call back"? It depends entirely on the quality of the customer information data base. The better the online information, the fewer call backs necessary. The goal of a good customer service system should be to have less than 5% of the calls requiring a call back. If 30% of the calls required call backs, there would be at least 300 opportunities for not following up and finishing the call. That's 300 opportunities to lose a distributor per month.

Any customer service system that strives for excellence has a means of tracking each phone call or 'service request' to completion. Open calls can be tracked and aged with priority given to the oldest calls, or to the most important distributors. Such a system, often called an Event Management System, becomes the core of any professional customer service system. In essence, it keeps track of each inbound phone call or email from the field and makes sure that every call is answered in a timely fashion. It provides the department manager with the reports needed to avoid having a distributor's call fall through the cracks in the floor.

Satisfaction Measurement

If you don't know how well your customer service people are doing, then you don't know how your future will be. If they are doing poorly, the company is doomed to failure. If the distributors rave about the excellent service they receive, you can be assured of future success because they will trust you. If they trust that their new recruits will

be well taken care of, they'll recruit. If they have doubts that a new recruit they bring in would be happy, they'll hold back. A customer service system must include the ability to track satisfaction levels. How is this done?

When a distributor phone call is logged and closed, a follow up call is placed, an email sent, or a survey letter mailed to the distributor asking:

- Was your call answered in a timely manner?
- Was the customer service representative courteous and professional?
- Was your question answered to your satisfaction?

Questions such as these, when answered by field distributors, become invaluable to reaching the goal of customer service excellence. The best software packages today incorporate Customer Service Excellence systems to make your obsession for excellence become a reality. Some companies provide bonuses to those reps who are consistently scored well by the distributors they serve.

Work Load Measurement

No customer service department can survive increasing work loads for long without burn out. If the number of calls received each day is tracked, with the length of time it takes to handle the average call, expansion plans can be put in motion before work loads become critical. Distributors cannot be serviced with excellence if there are too few people to do the work. Once again, the task of measuring work load will require an excellent direct selling software system.

In summary, let customer service be your secret weapon to success. It takes planning, commitment, and hard work to achieve the excellence a successful direct selling company needs.

#10: Growing Too Fast

While most businesses would give their right arms to grow at exponential rates, direct selling has a track record of just that. Unfortunately, this kind of growth has often been a major cause of the demise of many otherwise successful ventures. Success is wonderful, but it can bury you.

New businesses have new staff, new computer systems, new facilities, and are short on the experience to handle business efficiently. An office can only handle a certain volume of business. What if that volume is exceeded? Something must give. What if they run out of product for several weeks? Growth can be very expensive.

While growing, cash seems to be unlimited. Some growing companies go on a spending spree throwing money at their problems. This too, is a false security, for as surely as the growth came, it will level out, and eventually go downward for periods of time. It may be far better to limit growth temporarily, than to succumb to its crushing demands.

How can a direct selling company control its growth?

If you think your growth will outpace your capacity to sustain it, then consider the following options:

- Start locally by not accepting distributor applications from everywhere until you are ready. Distributors who seek to join from unopened regions are simply given a courteous thank you letter. Let them know how much you want to have them join, but that the

opportunity isn't available yet in their area. Notify them when they can join.

- Don't sponsor road trips by corporate or field promoters. Take advantage of the less expensive local opportunities, first. Meetings can be held locally every night of the week for the cost of one meeting on the road.
- Don't recruit professional direct selling promoters or big hitters. If they want to join, then they must join as any other distributor. Don't, however, go out of your way to recruit them.

By controlling growth, a business plan can become a real guide to making the business profitable. Use the plan to make success become a reality and don't be too anxious to build your walls before you have built a solid foundation.

Conclusion

Direct selling offers incredible opportunities but also has a vast assortment of pitfalls and traps. Life is too short to learn every lesson by ourselves. We are far wiser to observe others, and let their experiences teach us a better way. By recognizing these common but sometimes fatal mistakes, your potential for success will improve dramatically. Those that have money to burn can ignore these rules. Those that must be careful and have budgets to contend with should give heed to these 10 mistakes most often made by other direct selling companies. It may save your business and help you realize your dreams of success.

About the author

Dan Jensen has earned an enviable track record helping new and existing companies develop winning compensation plan strategies that build sales and recruiting. In 1978, Dan founded Jenkon, an industry leading software provider for the direct selling industry. Working with hundreds of new start-up companies as well as many direct selling giants in the last 28 years, Dan has acquired a broad and unique perspective on what makes successful companies succeed, and what makes too many of them fail. He has published numerous articles on sales force compensation and other industry issues and has consulted for many industry leading companies on their compensation and incentives programs. Given to only one person each year, Dan was honored in 1997 to receive the DSA Partnership Award for his work at Jenkon. In 2007, we was once again honored to receive the award for the increased success his clients have found with their field compensation strategies.



Dan receiving the 2007 DSA Partnership Award from Neil Offen, President and CEO of the DSA.

¹Stephen R. Covey, "The 7 Habits of Highly Successful People", Simon & Schuster, ISBN 0-671-66398-4

²Stephen R. Covey