

## **MAKE MORE ...**

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## **IN DIRECT SELLING**

Chances are, the concept of direct selling (or, as it's also called, network marketing, multilevel marketing, party plan marketing, and one-to-one marketing) rings a bell. You may be familiar with it from the likes of a local Avon lady or Mary Kay specialist who may have once rung your doorbell, or from a neighborhood Tupperware party you attended a few years ago. Perhaps you've purchased something from a friend who at some point went into direct selling as a side career.

It's also possible that at some point this kind of business turned you off. If you're like me, maybe someone you know—probably a relative, friend, or coworker—once came up to you and asked, “Can you do me a favor and come to this meeting with me? I'm looking at a new business opportunity, and I want to share it with you and see what you think.”

Because you're a good guy or gal, you said okay—only to find that your friend had suckered you into an “opportunity meeting” for a new multi-level marketing business.

### DOES THIS SOUND FAMILIAR?

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After being harangued for an hour or so about how you can make a fortune—with overly enthusiastic people delivering emotional testimonials about how much money they were supposedly making and a bunch of group cheers where everyone had to get up and yell, “Whoopee!”—the meeting broke up into smaller groups, where your friend and a bunch of other people tried to sign you up.

Maybe you did sign—and, as a result, ended up with \$4,000 worth of water filters sitting in your garage. Or several hundred boxes of some superdeluxe nutritional products that supposedly allow you to eat cheeseburgers and watch TV and still lose weight. Or a special water ball that goes in your washing machine and does your laundry for a hundred years. Or amazing knives that cut through telephone books.

It’s not surprising that your memories of the experience aren’t fond ones.

This practice of pressuring people into buying a “distributorship” and, along with it, a ton of stuff they don’t need and will never be able to sell is known as “front-loading”—and it’s illegal, as is most of what the authorities call “pyramid schemes.” The good news is that pyramid schemes are NOT what this section is about. So please keep reading.

### THE DIRECT-SELLING INDUSTRY— AN OBJECTIVE LOOK

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I’ve started this section talking about the negative side of direct selling because if you’ve been exposed to it before (as I’ve been), then like me you may think this entire industry is a sham. Truth be told, I felt this way for nearly two decades (ever since the first bad meeting I was roped into attending). Whenever someone would try to talk to me about the industry, I would turn and head the other way.

All the same, I don’t think you (or I) should dismiss direct selling out of hand. The fact is, the industry has changed enough in recent years to be worth a second look. What used to be a fly-by-night business of scammers now boasts a fair share of publicly traded multinational giants and well-established privately held companies with revenues in the billions. As a result, I’ve come to believe that direct selling now deserves serious consid-

eration as a possible way to create a second, home-based income stream for yourself.

### **WHEN WARREN BUFFETT TAKES NOTICE, IT'S NOTICEABLE**

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To be honest, what got me to reconsider my negative attitude about direct selling was Warren Buffett. When I read in *Fortune* magazine that Warren Buffett, the billionaire investor and one of the world's richest men, was investing in a direct-selling company, I decided maybe I was missing something.

For those of you who are not familiar with Warren Buffett, he's a widely admired, Nebraska-based financial guru (known popularly as "The Oracle of Omaha") who's built a fortune estimated at more than \$40 billion. He's done this mainly by making long-term investments in boring, cash-cow industries like insurance and consumer products and soft drinks. So for him to invest in a direct-selling company meant something in that industry must have changed.

### **DIRECT SELLING—OVER \$80 BILLION A YEAR AND GROWING**

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What may have attracted Mr. Buffett's attention to direct selling is the fact that the industry is really booming. According to the *Direct Selling Association (DSA)*, more than 13.6 million Americans were involved in direct selling in 2004, generating total revenues of just under \$30 billion. Worldwide, some 47 million participants racked up sales of \$88 billion.

Even more impressive (or surprising), studies show that more than one in two American adults have purchased goods or services from a direct-selling representative.

### **WHAT EXACTLY IS DIRECT SELLING?**

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Direct selling, network marketing, multilevel marketing, party-plan marketing, and one-to-one marketing are all variations on the same theme. As the DSA defines it, "Direct selling is the sale of a consumer product or service, person to person, away from a fixed retail location." Generally speak-

ing, the person doing the selling is an independent contractor—usually called a distributor or a consultant—who basically contracts with the manufacturer to sell products ranging from nutritional supplements to makeup to rubber stamps. The sales typically take place through in-home product demonstrations, parties (think Tupperware), meetings, or one-on-one interactions (“Avon calling!”).

In addition to selling your product, you also recruit others to sell products for you. These so-called “downstream” distributors pay you a percentage of their sales—just as you pay a percentage of your sales “upstream” to the person who recruited you. The idea is to recruit so many people that an increasing amount of your income comes from their efforts, not your own. Indeed, in network and multilevel marketing, recruiting others is often a primary point of the business.

The reason you recruit others is so you can earn passive income from their sales and obtain new customers for your products or services. In truth, the best passive income in direct selling or network marketing comes from satisfied customers reordering products or services you previously sold to them. If the entire business is focused on the recruitment of more sales representatives—and not on the selling or consumption of services or products—something is amiss.

### **WHAT DIRECT SELLING IS NOT!**

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- It’s not about getting you to buy a ton of products up front—which, as I noted above, is considered pyramiding and is illegal.
- It’s not a get-rich-quick business. Any company that presents it as such should be avoided.
- It’s not expensive to get into. In most cases, you can get started with an investment of less than \$300, and often under \$100—but you may need to invest a few thousand to really get it off the ground.
- It’s not for the lazy. This business will not make you money while you’re sleeping or sitting on the sofa watching TV.
- It’s not necessarily about roping in your family and friends. If your supplier seems to focus more on getting you to recruit buddies and relatives rather than on selling and introducing the quality products or services it is providing, you’re with the wrong company.

### **WHY CONSIDER DIRECT SELLING AS A HOME-BASED BUSINESS OPPORTUNITY?**

I know I'm going out on a limb here by recommending direct selling as a business to consider. I'm doing this because it really can be an excellent source of additional income. To me, what many people see as a downside to direct selling is actually an upside. The fact that most people don't get rich in this industry, but instead "only" make an extra \$500 to a \$1,000 a month, is exactly what excites me.

As I noted earlier, the average wage earner in America makes around \$37,000 a year. If you're in that range, earning an extra \$500 to \$1,000 a month amounts to an increase in your income of anywhere from 16% to 33%! Saving just a quarter of that could represent the difference between being able to retire and having to work until you drop. And if you're lucky enough to be earning more than the average, the extra income could be what winds up buying you your financial freedom.

### **13 REASONS TO CONSIDER DIRECT SELLING**

#### REASON NO. 1

#### **THE MOMENT YOU JOIN A DIRECT-SELLING COMPANY, YOU ARE IN BUSINESS**

Generally, when you start a new business, the first weeks and months (sometimes years) are spent developing relationships, finding reliable suppliers, testing marketing plans, and the like. Not so in direct selling. Once you find a company that's right for you, it's all there, ready to go—suppliers, marketing plans, training, you name it. You can start going after customers from day one.

#### REASON NO. 2

#### **YOU DON'T HAVE TO REINVENT THE WHEEL**

The hardest part of becoming your own boss is figuring out what business you're in. What are you selling? Who are your customers? What's the best

sales approach? Will it even be profitable? A direct-selling company that's been in business for a while and has a proven track record (which is the only kind to join) has long since figured all this out.

#### REASON NO. 3

#### **YOU DON'T HAVE TO DO IT ALL YOURSELF**

Trust me, as an entrepreneur who's created a business from scratch and is now creating a new industry (financial lifestyle education that works)—it's hard! I spend tons of time and lots of money going to coaching programs, attending entrepreneur clinics, and taking marketing courses. I've had to go out and find all of this support on my own. When you join a top-notch direct-selling company, they provide you with an entire training system that usually includes “learning in a box” (e.g., at-home study courses as well as extensive audio, video, and book resources) along with regular training and motivational seminars.

My only warning about this aspect of direct selling is to be careful that you don't become a professional “training junkie.” Unfortunately, some people get so hooked on the courses and the workshops that they forget why they signed up in the first place. All the training and motivation in the world is useless if you don't actually go out and sell some product.

#### REASON NO. 4

#### **YOU WILL BE FORCED TO STRETCH YOURSELF**

Let's be totally honest here—you're not going to start a business (any business) at home in your extra hours without massive effort. And you're not going to succeed at direct selling without really working hard.

There are occasionally a few exceptions—and, believe me, if you join this industry, you will hear about people who supposedly made tons of money without lifting a finger. But they are the exceptions! Anyone who gets involved in direct selling is going to have some really bad days. Remember, you are going to be presenting a product or service to people, and some of them (maybe a lot of them) are going to REJECT YOU! At that point, you will either quit or stretch yourself. All personal growth—and, along with it, income growth—comes after that stretch, not before.

REASON NO. 5

**YOU WILL FIND MENTORS AND EXPERTS**

While groups like SCORE can help, the fact is that when you start a business, it's often hard to find experienced mentors with the time and inclination to help guide you to success. This problem does not exist in direct selling. Since the person who introduces you to the business gets paid only if you succeed, he or she has a vested interest in seeing that you succeed. This means you should be very careful about the person you allow to sign you up, since he or she will become your mentor.

REASON NO. 6

**YOU CAN CREATE PASSIVE INCOME**

The hardest dollar you will ever earn is the one you are paid in exchange for your time. Whether you earn \$5.15 an hour minimum wage or \$500 an hour like my trademark attorney, people who get paid by the hour are trading time for money—and there are only so many hours in a day. The key to being rich, therefore, is getting money to come to you 24 hours a day without your having to be working all the time. In direct selling, as you build a customer base, you not only earn money from your own efforts but, as you get other people to start their own businesses, you begin earning money from their efforts as well. This idea of earning money from others people's efforts—or what is known as passive income—is not unethical, by the way. It's called being a “business owner.”

REASON NO. 7

**YOU MAY MAKE A NEW CIRCLE OF FRIENDS**

Here's something you may not realize: A lot of the people you hang out with today are really about your past. You may have a ton of friends you made 5, 10, maybe 20 years ago who have no desire to do or be more than they are right now. And the moment you tell them what you are doing, whether it's going into direct selling, buying a house, paying yourself first, or simply learning about all of this, they are going to put you down and tell you you're being stupid.

This will hurt and upset you, and you will find yourself tempted to

“throw in the towel” in an effort not to alienate your old friends. After all, the only alternative is to make new friends. And when you are older, making new friends is not easy.

The beauty of direct selling is that you join a team of people who have similar interests and dreams to do and be more. As a result, you may find yourself building a whole new world of new friends.

REASON NO. 8  
**YOU DON'T HAVE TO RETIRE**

In Chapter Twenty-two, you'll learn why I think retirement is a myth. The beauty of a direct-selling business is that if you are successful and enjoy it, no one can force you to retire from it. You won't get downsized or outsourced into retirement. Many retirees find that direct selling is a nice way to supplement their Social Security checks or fixed income while staying active and socially involved.

REASON NO. 9  
**YOU GET TO HELP OTHER PEOPLE**

Direct selling may be the ultimate “people” business. It's all about helping and being helped by the people you work with—not only your customers but your colleagues, whom you mentor and who mentor you. Not every line of work gives you the opportunity to do this and to make a good living at the same time.

This aspect of direct selling is one of its great strengths. Whether you get involved in direct selling or some other business, what will make you successful is your desire to help other people. If you work from that place with integrity and honest intentions, you will lead a life of significance—and you will be a better person at the end of the day. You will also earn more money.

REASON NO. 10  
**YOU MAKE YOUR OWN HOURS**

Direct selling tends to attract women, couples, and families looking for a way to balance their lives with their need for additional income. Because

you decide how hard you want to work and how much you want to earn, you can create the life you desire in this business. No one is out there insisting, “You have to do this full-time!” While some direct-selling people do work 60 or more hours a week, the choice is theirs—and yours. (Indeed, according to the DSA, more than 85% of direct salespeople work fewer than 30 hours a week.)

The best advice I can give you along these lines is “don’t quit your day job”—or even think about it—until your direct-selling income outstrips your regular income. (This applies to any new business you may start.)

**REASON NO. 11  
TAX INCENTIVES!**

As I noted earlier, the tax advantages to owning your own business are huge. It’s not just the great retirement accounts business owners qualify for. There’s also the fact that many daily activities—such as travel, telephone conversations, entertainment, and the like—can turn out to be legitimate business expenses that are at least partly tax-deductible. One of the great things about direct selling is that the business is so intertwined in your life that many normal activities become business-related—and, hence, deductible. (For details on what constitutes a legal tax write-off, consult your tax advisor or visit [www.irs.gov](http://www.irs.gov) and request Publication #535, “Deducting Business Expenses.”)

**REASON NO. 12  
DIRECT SELLING IS LESS EXPENSIVE TO GET INTO  
THAN MANY OTHER BUSINESSES**

As I noted earlier, some direct-selling companies sell start-up kits for as low as \$200; some are even \$10—or free! There are not many other businesses where you can get started on such a small initial investment—especially when you consider that you’ll be associating yourself with an established company that will more than likely provide you with a completely automated accounting and billing system, as well as introductory training, access to professional marketing materials, and business and personal development resources.

REASON NO. 13  
**IT'S A FAMILY BUSINESS**

While working with your spouse and children might not be tops on your list, a direct-selling business is an excellent way for you and your family to spend time together. Meeting new friends together, sharing products you love with others, and taking the incentive trips many companies reward distributors are just some of the opportunities. And that doesn't include the extra time you can spend with your family once your business has been established. There is no boss to tell you when you have to work.

Often, children can help you in certain aspects of your business, giving you an excellent environment to teach them self-reliance and responsibility. Lastly, many direct-selling companies allow children to either inherit the business you have built or start a business under you, giving them multiple options as they plan their own lives and careers.

### **FIVE MAJOR DOWNSIDES OF DIRECT SELLING**

Okay, we've looked at the major reasons why you should consider direct selling as a possible home-based business you could run. But that doesn't mean you should run blindly to the first direct-selling company you can find and sign up. There are some risks involved in this industry, and it's important that you weigh them before you make any commitments.

**First**, despite the presence of a growing number of respectable players and various federal and state laws designed to protect home-based business owners, the nature of direct selling creates a fertile environment for con artists—and many direct-selling companies that appear legitimate or seem to be growing fast are really making only their owners rich. In my view, the single biggest problem in the industry is the high percentage of businesses that pop up and then disappear in just a year or two.

The “business explosion” rate in this industry is shocking. One minute a company is bragging about doing \$30 million in its second year (you're reasonably impressed). Then, six months later, it's out of business (and you've wasted six months—not to mention all the money you put into it). This happens a lot. I've seen hardworking people spend a decade in this industry going from one company to the next because of this “explosion rate,” all the while getting nowhere fast.

**Second**, the business is overly prone to what I call the “old razzle-dazzle.” It’s easy for unsavory operators to prey on people’s desire to get rich quick. They show off their cars and jewelry and brag about their vacations. They tease you with images of the “good life”—and tell you that you can have it, too!

Well, that’s not entirely untrue. You *can* have the good life, if you’re willing to work for it. But anyone who uses this approach to sell you on the business is, in my opinion, trying to “razzle-dazzle” you, and they and their business should be avoided.

**Third**, for all its progress, the industry still suffers from a taint. The fact that direct-selling revenues now approach \$100 billion a year, that Warren Buffett has invested in it (through his Berkshire Hathaway holding company), that companies with household names such as Avon, Citicorp, Sara Lee, and Time Warner all have very large direct-selling operations, and that the government has ruled it’s completely legal hasn’t yet been able to counter the “Are you kidding me? You’re doing what!?” reaction that being involved in direct selling tends to elicit.

It is what it is. You will have to decide how much you care about what other people think. Of course, the funny thing about caring what other people think is that if we all really knew how little time other people spent thinking about us, we’d never worry about it. Trust me, as you read this right now, the chances are that nobody is thinking about you. Sort of brings a smile to your face, doesn’t it? That’s because you know I speak the truth.

**Fourth**, it’s not easy to find the right company to sign up with. It requires a lot of research, and that takes time. If you’re not willing to spend that time, you could wind up making a huge mistake.

**Finally**, most people who enter this business wind up dropping out. It’s repeatedly reported that 90% of people who join a direct-selling company quit within 90 days. You may find this depressing—even intimidating—but it’s important that you be aware of it. At the same time, you should keep in mind that while a 90% attrition rate may seem extraordinarily high, it is not uncommon in other industries. When I was training to become a financial advisor, the instructor at my firm told everyone in my training class to look to our left and to our right—both people would be out of the business within three years. It turned out the instructor was being optimistic. He should have said, “Look to your left, your right, in front of you, behind you, and diagonally.” The attrition rate was that high.

## PUTTING THE ODDS IN YOUR FAVOR IN DIRECT SELLING

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The best way to maximize your chances of succeeding at direct selling is to choose the right company the first time you try. This is not easy. Here are five tips for how to do this.

### TIP NO. 1

#### **ONLY GET INTO A BUSINESS YOU ARE PASSIONATE ABOUT**

If I were getting involved in direct selling (I'm not because I need to stay neutral, so don't e-mail or call me about this), I would go straight into financial services, since it's what my educational background and professional training has been in. Right now, there is a company (whose name I won't mention because I'm not making specific recommendations here) that is in the business of helping people save money, buy insurance, and pay their home down early. This company is owned by one of the largest publicly traded financial-services firms in the world. Because this company is in an industry that is directly aligned with my own core values and interests and training, I could start with them tomorrow and easily devote 40 hours a week to it.

Remember, direct selling is a "people business," in which you have to share with others your passion for the product or service you're offering, whether it be health, wellness, travel, legal protection, clothing, collectibles, home furnishing, or something else. So you need to find a business that you want to talk about all day and dream about all night.

### TIP NO. 2

#### **ONLY SIGN UP WITH AN ESTABLISHED COMPANY**

The best way to avoid heartache is never to be "first" in this business. There's too much risk in being first—and while I know all the stories about how it's the pioneers who get very rich, it's too much of a risk for people who want to start late and finish rich. Find me a company that's publicly traded, that's already doing a billion dollars a year in sales (and there are already six), that has an established track record of earnings and growth—

and the odds are in your favor they won't be going out of business anytime soon. Of course, anything is possible (look at Enron). But you do have a better chance of not losing your shirt. At a minimum, I'd want to see revenues of \$50 million a year and at least five years of solid earnings and growth before I signed up with anyone.

TIP NO. 3

**VISIT THE COMPANY HEADQUARTERS AND  
MEET THE MANAGEMENT**

Nothing beats a face-to-face meeting at company headquarters. It's by far the best way to get a good sense of what kind of people are running the company, how it's doing, and where it's going. You'll get a sense of their integrity, and whether or not they are people you can trust. Go with your gut on this one. Even if it costs you \$1,000 to make the trip, you should do it. And if the company doesn't roll out the red carpet to meet you, then cross them off your list. If you can't afford the expense or the time, then study the materials you get from the company extensively and completely. Really read (don't just flip through) the entire distributor agreement and ask questions about items you do not understand. In addition, meet the company's leaders who are in your local area and attend some company events prior to signing up.

TIP NO. 4

**READ THE FINANCIALS**

Seriously. No joke. You are making a HUGE MISTAKE if you sign up with any kind of company, direct selling or otherwise, without first taking a close look at its financial records. Whether you are buying real estate, investing in a franchise, or getting into direct selling, you have to look at the numbers. This is why I recommend that you consider only direct-selling companies whose financials you can obtain. This is easiest if the company is public, since by law the financial results of publicly traded companies must be made public—meaning you can either get them from the company itself or by going online. You should also check the company's history with your local Better Business Bureau, your state's Attorney General, and the Federal Trade Commission. Specifically, you want to look for

some simple things: Does the company make money? Does the company have debt—and if so, how much and why? What’s the attrition rate of people who join the business? This kind of information should be readily available from a publicly traded company. If the company you’re considering is not publicly traded, they still should be willing to show you their financials. If they’re not, don’t get involved—PERIOD!

**TIP NO. 5****CONSIDER ONLY DSA MEMBERS**

*The Direct Selling Association* has essentially become the Better Business Bureau of this industry. As of this writing, there are more than 1,000 well-established direct-selling companies in business. Of these, fewer than 200 have applied and been approved for DSA membership. As this statistic indicates, the DSA sets a very high standard. Visit its web site at [www.dsa.org](http://www.dsa.org) and check out its membership requirements and Code of Ethics. Among other things, it subjects companies to a yearlong review process before it lets them join—and to discourage “front-loading,” it requires members to repurchase unsold materials from distributors for at least 90% of the original cost within 12 months of the original purchase.

**AND NOW BACK TO WARREN BUFFETT**

One of the first direct-selling companies Warren Buffett invested in was an outfit called Kirby Company (vacuum cleaners). He then purchased World Book (educational products) and, most recently, The Pampered Chef. The story of the founder of The Pampered Chef, Doris Christopher, is a great example of direct selling at its best—and what can happen if you have the courage to start your own home-based business.

**FROM A \$3,000 START-UP TO  
A BILLION-DOLLAR GIANT**

Back in 1980, Doris Christopher was looking for a business she could start that would allow her to stay home with her two young children. An educator and home economist, she was convinced that women not only wanted but also needed professional-quality kitchen tools for everyday use. So in

1980, with only \$3,000 in cash and boundless faith in her sense of the marketplace, she launched **The Pampered Chef**.

Capitalizing on her natural abilities as both a teacher and a cook, she pulled together a small but top-quality line of professional cooking utensils and began not so much selling them as teaching other women how to use them.

Her products were so well suited to direct selling and demonstrations that Doris soon realized that the best sales technique for them was essentially to throw a party. People loved to eat, they loved to cook, and they loved to get together to socialize. Of course, a lot of pots and pans were sold at these parties, and soon friends of hers began asking if they could organize sales parties of their own.

Realizing she could have a much bigger business if she recruited a team of people to sell for her, Doris decided to set up a direct-selling company—a woman-to-woman network in the tradition of other powerful direct-selling giants such as Avon, Mary Kay, and Tupperware.

Doris knew that if she built a company based on integrity, service, and above all else quality products, she could really grow her business. She was right. Over the years, The Pampered Chef has mushroomed into a \$750-million-a-year company with 70,000 active independent kitchen consultants in four countries.

Eventually, Warren Buffett would notice not just the value in Doris's business but the integrity of its founder and CEO. In December 2002, he bought The Pampered Chef.

### **DON'T QUIT YOUR DAY JOB— AT LEAST NOT YET**

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The purpose of the last two chapters was to expose you to two different ways of growing your income. I'm not here to suggest that you must take up buying and selling on eBay or joining a direct-selling company. Whether or not starting a second business makes sense for you—and what that business should be—is ultimately something only you can decide.

Hopefully, you've gotten excited about one or more of the ideas I've presented. But no matter how excited you may be, I implore you, **DON'T QUIT YOUR DAY JOB**.

If you wind up following through on one of these approaches—and you

wind up succeeding at it so well that your new stream of income outstrips what you are currently earning—THEN you can consider leaving your day job. But only then, and only if you're confident the new income stream will continue to grow. Remember, the idea is to supplement your basic income, not replace it. You quit your day job only if you think you can make even more money by doing so.

This is exactly what happened to me. I started FinishRich, Inc., on the side (working on it in the early morning and at night) while I kept my day job as a senior vice president at Morgan Stanley and a partner of The Bach Group.

In all, I spent four years developing FinishRich, Inc., before I quit my day job. In that time, I not only built up our savings but I also was able to prove to myself (and my wife, Michelle) that my new business was sound. I didn't leave my day job until I felt extraordinarily confident that FinishRich, Inc., was working.

### KEY “START LATE” PRINCIPLES IN CHAPTER SEVENTEEN

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- Although the direct-selling industry has attracted more than its share of shady operators, it also boasts some extremely respectable multinational giants—and, as a result, deserves serious consideration as a possible business.
- Legitimate direct selling is not a get-rich-quick business, but if you are willing to work hard, it can be quite lucrative.
- Among its many advantages is that you are buying into an existing enterprise that's designed to help you get started.
- You should consider signing up only with established companies that are members of the Direct Selling Association—and then only after checking out their financials and meeting their management.

### FINISH RICH ACTION STEPS

Reviewing the principles we discussed in Chapter Seventeen, here is what you should be doing right now so you can Start Late and Finish Rich. Check off each step as you accomplish it.

- Visit the Direct Selling Association web site (at [www.dsa.org](http://www.dsa.org)) to learn how legitimate direct-selling companies operate.
- If you have any friends or relatives who've been involved with direct selling, ask them about their experiences.