

The Australian Two-Up Plan: Illusions of Grandeur

By Len Clements © 2005

When someone says "It looked good on paper" it's usually an excuse for trying something that didn't work so well in "real life." A lot of things look good in theory, but don't always perform as expected in actual practice.

The Australian 2-Up pay plan definitely *looks goods on paper*.

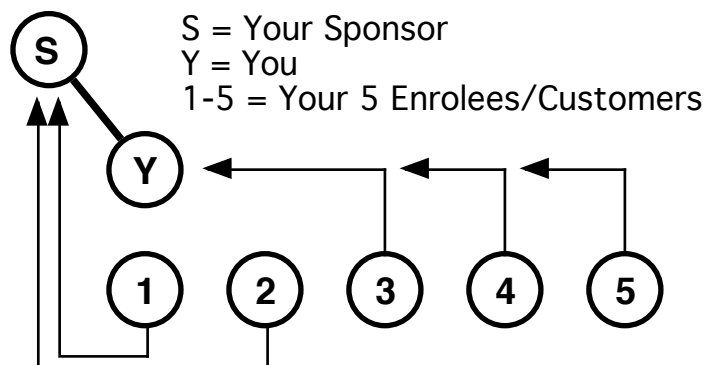
There are really only three categories of MLM compensation plans: Breakaway (Stair step), Unilevel, and Matrix. The Binary is a variation of the Matrix, and the Aussie 2-Up is an adulteration of the Unilevel. They all have their pros and cons, and none should be universally avoided based on their category alone – except one. The Aussie Two-Up. Or One-up, or Three-Up, or any variation of *ups*. There's no way to fix this unredeemable, corrupt and historically failed system of compensation, so any variation of it should be avoided.

What was then known as the "Two Up" or "Pass Up" plan was actually first introduced right here in the United States in the mid 1980s. With rare exception, the programs using the 2-Up down under were money games and D-grade MLM deals started on someone's kitchen table. The plan was neither invented, nor was it ever even popular, in Australia! Here in the states, those MLM companies employing the 2-Up would either quickly abandon it, or be abandoned. Indeed, since the first known sighting of a 2-Up only one legitimate company using this pay plan – just *one* – has made it to it's tenth birthday (even a two year old 2-Up program is an oddity). That Texas based company, Future World, opened in 1985 – and finally dumped their 2-Up style pay plan in 2001.

So with virtually a 100% long term failure rate throughout MLM history, why does the 2-Up refused to die? In fact, it seems to be experiencing a mild resurgence of late. The reason is twofold:

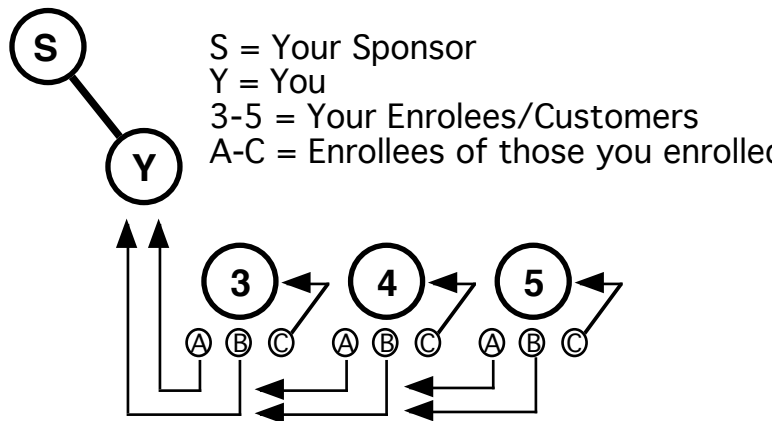
- 1) It *actually* rolls up tons of cash to the company;
- 2) It *appears* to roll up tons of cash to the distributor – on paper.

Basically, the standard 2-Up plan works like this:



It usually pays a set dollar amount on a fixed priced product or service rather than a percentage of the purchase price. For example, the product might be a \$500 tape set on how to cheat... um, I mean *save*, on your taxes (not a made up example, although the numbers have been changed slightly to protect the innocent). Let's say they pay a \$100 bonus for each sale. However, the first two purchasers you enroll do not earn you anything. The \$100 bonus goes *up* to your sponsor! So, the first two go up. Thus, a "2-Up" pay plan. Now, when you enroll your third person, and every subsequent person after that, you get the \$100 bonus.

Here comes the tricky part (in more ways that one).



Starting with your third enrollee you start getting the first two bonuses that they generate. That is, when your recruit number three signs up their first two people "A" and "B", per the same rules that lost you your first two people, they now lose their first two people to you their sponsor. When "3" enrolls their third person "C" they start getting paid.

Why the 2-Up looks so sweet and juicy to the participant, on paper, is also twofold:

- 1) It pays large dollar amounts per sale;
- 2) It pays them infinitely deep.

Most other pay plans pay a percentage of sales volume, usually something around 5% to 10% per level, and typically only on six or seven levels. A 2-Up might pay a set \$50, \$100, or even \$500 per sale. Psychologically a dollar sign is more enticing than a percent sign, and the number 50 appears more lucrative than the number 10 – even though 10% of the volume might be a lot more than \$50. However, in most 2-Ups even the *percentage* of the sale you are paid on blows away a traditional MLM pay plan. It's not unusual to see the bonus amount of the sale to be 25%, 35%, even 50% or more of the total sale – all to you, the seller. But the "infinite" part is what usually flabbergasts and bamboozles the prospect the most. That \$50 bonus doesn't stop after six or seven levels, it keeps paying you on and on, level below level, for as long and as deep as you can go.

Here's how the classic 2-Up is usually demonstrated:

Level	Members	Sales	Bonus
1	3	\$300	\$150
2	6	600	300
3	12	1,200	600
4	24	2,400	1,200
5	48	4,800	2,400
6	96	9,600	4,800
7	192	19,200	9,600
8	384	38,400	19,200
9	768	76,800	38,400

This scenario assumes a modest \$50 bonus per \$100 sale and a 5x5 progression (you get five who get five, and so on) down "only" nine levels which, of course, they'll tell you is extremely achievable and conservative. Even assuming that were true, here's the catch: Notice in their progressions they only show you the people you are actually paid on. In this case, the three people *after* your first two on level one, then only each of their first two on level two, and so on. They'll always ignore all the ones who roll up as if they don't even exist. Ah, but they do, and here's what happens when they are included:

Level	Actual Members	Total Sales	Paid On Sales	Paid On Percent	Bonus	Bonus Pct. of Actual Sales
1	5	\$500	\$300	60.0%	\$150	30.0%
2	25	2,500	600	24.0%	300	12.0%
3	125	12,500	1,200	9.6%	600	4.8%
4	625	62,500	2,400	3.8%	1,200	1.9%
5	3,125	312,500	4,800	1.5%	2,400	0.8%
6	15,625	1,562,500	9,600	0.6%	4,800	0.3%
7	78,125	7,812,500	19,200	0.2%	9,600	0.1%
8	390,625	39,062,500	38,400	0.1%	19,200	0.05%
9	1,953,125	195,312,500	76,800	0.04%	38,400	0.02%

You actually have five on your first level, not three (the first two rolled up to your sponsor). Of the three you are paid on, you are only paid on their first two. So although you have 25 total people on your second level, you are only paid on six of them, and you earn nothing on the other 19. The first two of each of those six roll up to you, so on level three you are paid the \$50 bonus on 12 sales, and earn zilch on the other 113. So yes, it is quite true that you would still be earning this \$50 bonus by the time you've saturated the planet Earth (level 14 in this absurd scenario), but on only seven ten-thousandths (.0007) of them.

Notice in the first scenario – the one you usually see – to achieve this \$76,000+ monthly income would require what appears to be a downline of only about 1,500 people. Pretty exciting. And a lie. Besides the fact that pyramid shaped structures like this don't show the inverted bottom half of the organization (downlines are actually diamond shaped, not pyramids) which would roughly double the required number of reps, it also doesn't reveal the ballooning number of folks you are *not* being paid on! Based on this hypothetical scenario, for you to be paid on 1,500 people down nine levels would actually require over 2.4 million people, and closer to five million in total (factoring in the bottom half of the diamond). To put this in perspective, to earn that \$76,000 would not require a personal downline of 1,500 people in the U.S., it would require about *four times* as many people as all of Amway has acquired *worldwide*!

It gets worse. In most 2-Up programs the item you are paid on is a one time sale. Perhaps a package of audio and video presentations (how to not pay taxes, protect your assets, investment strategies, an expose' of government conspiracies, etc.). Or in many cases this information is presented as a live seminar at some Caribbean resort location. It's unusual to see a 2-Up plan applied to a consumable product. So, all those astronomical numbers just described above would have to be reproduced all over again *every month*! That is, to earn that \$76,000 again next month you might have to find *another* 2.4 million people to buy the product. In many 2-Up schemes you'll be asked to purchase a \$100-\$500 product (again usually an information product of some kind), followed by subsequent purchases of higher and higher priced educational material and seminars. Some go as high as \$20,000 or more, which you must purchase to continue to participate in the pay plan. From a legal perspective a state Attorney General or the FTC want to see commissions only being paid on products that people would buy based on the value of the product alone (even if there were no income opportunity). That must be one absolutely incredible seminar!

Also, notice the total pay out (total of the last column in the above table). It's 49.97%. Not bad, but certainly not spectacular. The problem is, this is based on a wholly ridiculous assumption that everyone recruits five others. Yes, any fixed mathematical progression will be light-years from reality, I know. But considering the vast majority of MLM distributors recruit between zero and three people, wouldn't it be at least *closer* to reality to assume, say, a 3x3 progression? Let's try it and see what happens.

Level	Actual Members	Members Paid On	Total Sales	Paid On Sales	Paid On Percent	Bonus	Bonus Pct. of Actual Sales
1	3	1	\$300	\$100	33.0%	\$50	16.7%
2	9	2	900	200	22.2%	100	11.1%
3	27	4	2,700	400	14.8%	200	7.4%
4	81	8	8,100	800	9.9%	400	4.9%
5	243	16	24,300	1,600	6.6%	800	3.3%
6	729	32	72,900	3,200	4.4%	1,600	2.2%
7	2,187	64	218,700	6,400	2.9%	3,200	1.5%
8	6,561	128	656,100	12,800	2.0%	6,400	1.0%
9	19,683	256	1,968,300	25,600	1.3%	12,800	0.7%

In this scenario you would be paid \$25,550 on 29,523 people down nine levels, which around 60,000 total in your organization. The total pay out would drop to a slightly better than average 48.8%. Keep in mind that a decent income-per-distributor ratio in any plan would be between \$4.00 and \$5.00 (you earn an average of \$4.00-\$5.00 for each active person in your downline – just divide the number of active reps into your check amount). In the first 5x5 scenario you would have earned an average of 31¢ per person. In the 3x3 scenario you'd only be earning 87¢ per person. The reason is that you would be getting paid a healthy \$50 (50%) bonus on 511 people, but you would be earning \$0 (0%) on the other 29,012 people. If this were a simple unilevel plan that paid 5% down nine levels (with a 45% total pay out, 3.8% less than the 2-Up's pay out above) you would earn \$147,615, which is an average of \$5.00 per person.

The 2-Up looks so good on paper because you only see what you get paid on the first level, which is usually a whopping 25-50%, but they never tell you that this percentage takes a precipitous plunge starting on the next level. You see the number of people you are paid on doubling upward, but are never shown the massive proliferation of sales you are paid nothing on – that you would have otherwise been paid on in every other type of plan.

If we track an even more reasonable 2x2 scenario, no chart is necessary. Because the grand total of all earnings from every single participant in the organization would be a big fat zero. The first two bonuses roll up to your sponsor, but you are one of his first two, yes? So it rolls up to his sponsor. But he's one of her first two, so it rolls on up to her sponsor. And sure enough, every bonus paid out in this scenario would eventually roll all the way up to the company. Or, most likely, the owner and his friends and family who have been conveniently positioned right after the family dog and a house plant (the owner's first two recruits). Again, I appreciate that a perfect 2x2 scenario is not realistic. But *any* scenario where thousands of people moving millions of dollars in sales could even *potentially* generate not a single penny of income to *anyone*, there's got to be some serious flaws with that plan.

I once got into a heated debate on an internet message board with the CEO of a start up 2-Up program. It was the same guy who told me a couple years earlier how he had resigned from his previous post as CEO of an MLM company because they refused to change their compensation plan. They were using, that's right, an Australian 2-Up. He insisted that it was a grossly unfair plan that doomed the company to failure. When it indeed failed six months later, he gloated about how he had been proven right and his warning should have been heeded. Now, two years later, he was online trying to rationalize his change of heart. I suggested to him that he now liked the plan because it was his company and he understood how much cash would be rolling up to just the top few levels. He countered by indignantly informing me that in their just completed first month of business they had enrolled over 800 people, did just over \$101,000 in product sales, and paid out a generous 59% to the field. In fact, their top earner had already made \$12,000, their second highest earner made \$10,000 and their number three earner just got a check for \$8,000! This post was followed by several others, all reps for the new company, thanking their leader for putting me in my place. I then thanked him for proving my point. After all, he had just admitted that they paid out \$60,000 in total commissions (59% of \$101,000 in sales) and fully *half* of it – \$30,000 – went to their top *three* distributors! The other half was split among the other 797.

This CEO never responded to another of my posts. His company went out of business about two years later after making numerous revisions to their pay plan.

Many companies have tried to "fix" the 2-Up over the years, always in vein. A common and obvious challenge are those who try to manipulate the plan by enrolling duds into the first two positions and saving their best prospects for positions three and beyond. As more and more participants caught on to this tactic fewer and fewer bonuses rolled up – even to the company. This, of course, could not be tolerated. So then came the "One Up" program, or the 2-Up/Unilevel hybrid, or the "Rotating" or "Random" 2-Up where the two people that rolled up to your sponsor would change each pay period. All those plans are gone, so apparently it didn't help.

In fact, the only programs still offering the 2-Up, or any such variation, are relatively recent start ups or blatant money games. In fact, if you were to make a list of the top 50 MLM companies in total sales last year, you'll find about half are using break away plans, about a third are unilevels, and the rest are either binaries or matrix programs. Keep in mind the 2-Up had about a five year head start on the binary in getting traction here in the U.S. market. Yet, not a single company among those top 50 are using anything even remotely resembling an Australian 2-Up pay plan. Not a single MLM pay plan or start up consultant will recommend it to their clients. It's shunned in virtually all foreign markets as well.

The Australian 2-Up isn't even popular in Australia!

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