Binary compensation plan

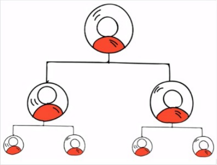
The binary MLM compensation plan is the most popular network marketing plan with rapid growth opportunities. The two-legged plan balances business and distributor growth by encouraging teamwork with attractive compensations.

Binary MLM plan - An introduction!

The binary plan consists of two legs (left & right) or subtrees under every distributor. Upon adding subtrees, a binary tree gets formed. New members joining after them are spilled over to the downlines or next business level.

This process continues to unlimited levels or depths. Also, the plan is easy to understand which helps distributors attract more people to the network. Thus the recruitment or sales increase which also improves growth and business opportunities.

Most of the popular companies choose this basic plan with precise planning and proper strategy.



(Binary MLM plan working)

Well, MLM companies that run with the binary compensation plan needs proper tracking. An intelligent Multi-level marketing software helps companies manage, control, and organize their business easily.

How does the binary MLM plan work?

The new members sponsored by distributors are added either on the left or right leg. Upon adding two new members on either side of the subtree, a binary tree gets formed.

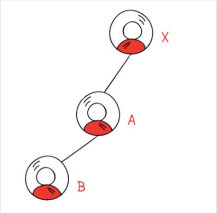
All the new members referred after forming a binary tree gets spilled to the downlines.

Note: Distributors become a part of the binary plan by purchasing an enrollment package. The enrollment package here means either a service or a list of products. The distributor buys the package and becomes a part of the binary MLM company.

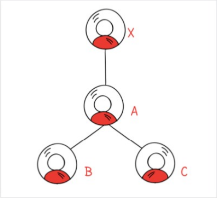
Let's explain with an example,

Case 1: Distributor X sponsors A, and distributor A then sponsors a new member B. B gets added to the left position or leg of A on the binary tree.

Distributor B is the new member sponsored by A and he is the direct downline member. Distributor A then adds another member C to his right leg.



(Binary left leg spillover)

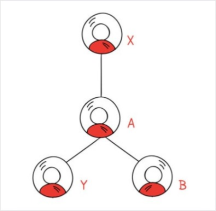


The binary tree of distributor A is formed and he gets commissions. Don't forget one important factor, distributor C was added to the right because he chose that position as it was vacant. Here, distributor A is the 'sponsor' as well as the 'parent' of B & C.

(Binary tree of X)

Case 2: Distributor A is sponsored by distributor X. Distributor A then sponsors a new member, B. However, B wasn't added on the direct left leg because it was already acquired by distributor Y sponsored by X.

Here, distributor Y got spilled over to the next vacant position i.e. on the left leg of A. The sponsor of Y is X but the parent is A.



(Binary plan structure)

Note: The sponsor is the person who referred a member to the network whereas the parent is the person to whom a member comes under as downline.

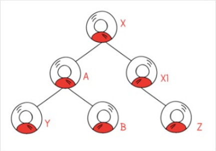
So, this gives a clear picture, the downlines under a node might be from his/her efforts known as direct downlines or from the uplines efforts or referrals. Distributor B was added on the right leg. Now, the binary tree of distributor A is formed.

Yet another information we receive from here is that a binary tree may form based on their own efforts/referrals or from the members spilled over from the uplines.

Note: A binary tree never gets completed, in fact, it's infinite. However, a binary tree is formed once the left and the right leg gets filled.

A question might have arisen in your mind now - Can a binary tree get formed from the uplines efforts alone? Let us cover that part covered with the same example.

Case 3: Distributor X sponsors two new members A & X1. They are added on the left and right leg as they were vacant. Distributor A then sponsors a new member B to the direct right leg. Meanwhile, distributor X has sponsored Y & Z. The binary tree looks now like,



(Binary MLM tree)

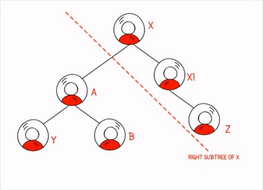
See how the new members are added here, Y got added on the left position below A but Z got added below right to X1. The distributor X can add Y on the left leg under A but not on the right leg. To understand the reason, one should know the right and left leg placing or filling exactly.

The left and the right legs of X are depicted in the above picture. The position occupied by B is the right leg of A but not X. The right leg of X always spilled over the right positions below X1.

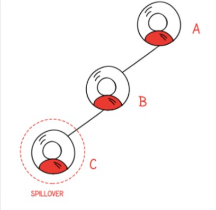
Compensations are received based on sales volume achieved by the distributor as well as a percentage of sales volume from the downlines. The criteria are set by binary plan companies.

Spillover can occur even if the binary tree is not truly formed. This is yet another scenario to consider.

Case 4: Consider a scenario, where distributor A sponsors two new members, B & C, only to the left legs. Now, B gets added on the direct left leg and C gets added to the direct left of B as spillover.



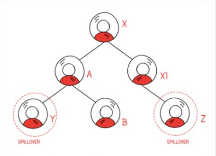
(Binary tree)



(Binary spillover)

Case 5: Another type of spillover occurs when the direct left and right legs get complete and new members are placed to the next levels. In the above case, Y and Z are examples of normal spillover.

Distributor X sponsored A & X1, by forming a binary tree. Afterward, the next members get automatically spilled over to the next positions. This is a normal spillover.



(Normal binary spillover)

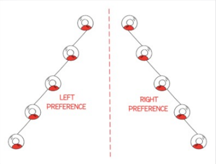
Binary Spillover preferences

When a distributor completes the first level of a binary tree by sponsoring two members, then the next members will automatically spill over to the next available level. However, the spillover preferences vary from one binary MLM company to another.

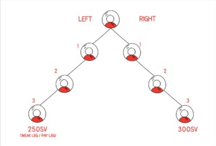
Types of spill:

Extreme left or extreme right spilling: The spillover preferences can be set either to the left or right leg. Most companies choose this option to make distributors active. They will get commissions only once they balance the tree by making sales on the pair leg.

This promotes group effort and gains good sales volume.



(Left and right spillover)

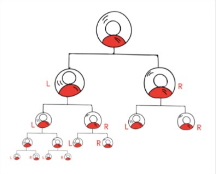


(Pay leg spillover)

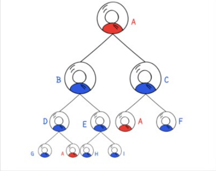
Weaker side/Pay leg spilling: New members are added to the weak leg, it may be left or right depending on the lowest sales volume.

This preference helps business admin to balance the sales volume as the new members will add more sales.

Balanced-spilling: This spilling preference balances the tree in advance in a 1:1 ratio. The members will be added on the basis of left-right combinations.



(Balanced spillover)



(Multi-center tree)

Multi-center tree/multiple position spilling: A premium joining package might provide a distributor with multiple business centers/member positions in a binary tree. The first three positions will complete a tree and the rest positions are spilled over to the next immediate positions. This type of spilling option is provided if the joining package from binary companies offer multiple positions in the binary tree.

Commission calculation methods

1. Weak leg based binary commissions:

Binary commissions are paid based on the leg with the least volume (weak leg).

Weak leg (Sales leg): The leg with low sales is the weak leg on a binary tree. Commissions are calculated based on this weak leg. It can be either left or right, based on Sales Volume (SV).

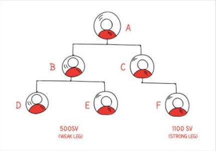
Strong leg (profit leg): The leg in the binary tree with higher sales volume is known as a strong leg.

Example: The downlines of distributor A are B, C, D, E, and F. Here, B, D, and E are in his left leg whereas C & F are in his right leg. The left leg made a Sales Volume (SV) of 500 and the right leg of 1100 SV.

SV is less on the left leg, hence it is the 'weak leg' and the right leg with higher SV is the 'strong leg'.

Bonus calculations are made based on this weak leg i.e. 500 SV. So, if the bonus is set to 10% then the bonus will be 10% of 500 SV which is equal to $50.

The rest 600 SV on the right leg after the bonus calculation is carried forward to the next binary cycle.



(Weak and strong leg)

2. Sales ratio based binary commissions:

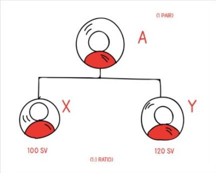
Some companies set commission payout criteria based on sales ratio or pair ratio. Most common pairing ratios or sales ratios are,

- 1:1 sales ratio
- 1:2 or 2:1 ratio
- 2:3 or 3:2 ratio

Note: Commissions are paid or the binary payout cycle is set on a daily, weekly, monthly, or periodic basis.

1:1 Sales Ratio: Commissions paid once the sales volume of the left and right leg matches a 1:1 ratio.

Example: Distributor A sponsors two distributors X & Y and adds to the binary tree. The commission payment criteria are set to a 1:1 ratio. Distributors get $10 for achieving every 1:1 pair.



(1:1 binary spillover)

Case 1: Distributor X achieves 100 Sales Volume (SV) and distributor Y achieves 120 Sales Volume (SV).

Both legs have achieved 1:1 ratio (100 SV on both legs) hence distributor A gets $10 as commission. The 20SV on the right leg is carried forward to the next binary payout cycle.

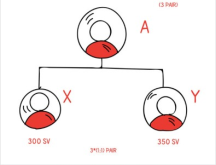
Note: Carry forward option for unpaid sales volume is applicable for both left and right legs. Also, some binary companies may not welcome carry forward option by flushing the unpaid sales volume.

Case 2: Distributor X achieves 300 SV and distributor Y achieves 350 SV.

Both legs have achieved a 1:1 ratio hence the distributor A (sponsor) gets $30 as commissions. Here, three 1:1 pairs are achieved, hence 3*($10)=$30 commission.

300/3=3 pairs

350/3=3 pairs (50 SV Carry forward)

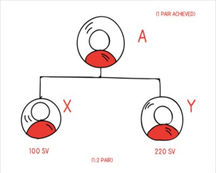


(1:1 binary MLM spillover)

The rest 50SV made by distributor Y gets carried forward to the next binary payout cycle.

1:2 or 2:1 Plan: Commissions paid once the left and the right leg achieves 1:2 or 2:1 sales volume.

Example: Distributor A sponsors two distributors X & Y and added to the binary tree. The commission payment criteria are set to a 1:2 or 2:1 ratio. Distributors get $10 for each pair.



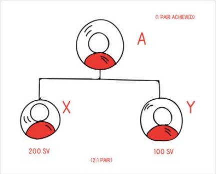
(1:2 binary spillover)

Case 1: Distributor X achieves 100 Sales Volume (SV) and distributor Y achieves 220 Sales Volume (SV).

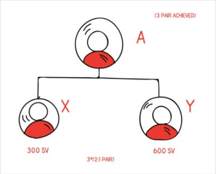
The binary tree has achieved a 1:2 ratio hence distributor A gets $10 as commission. The 20SV on the right leg is carried forward to the next binary payout cycle.

Case 2: Distributor X achieves 200 Sales Volume (SV) and distributor Y achieves 100 Sales Volume (SV).

The binary tree has achieved a 2:1 ratio hence distributor A gets $10 as commission.



(2:1 binary spillover)



(1:2/2:1 binary spillover)

Case 3: Distributor X achieves 300 Sales Volume (SV) and distributor Y achieves 600 Sales Volume (SV).

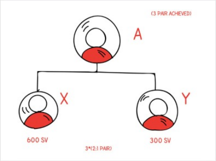
The binary tree has achieved a 1:2 ratio hence the distributor A (sponsor) gets $30 as commissions. Here three 1:2 pairs are achieved, so the distributor gets 3*($10)=$30 commission.

300:600 SV - Three [1:2] pair, to be precise, 3*[100:200]

Case 4: Distributor X achieves 600 Sales Volume (SV) and distributor Y achieves 300 Sales Volume (SV).

The binary tree has achieved a 2:1 ratio hence the distributor A (sponsor) gets $30 as commissions. Here three 2:1 pairs are achieved so 3*($10)=$30 commission.

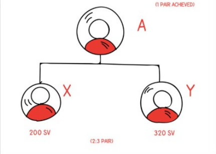
600:300 SV - Three [2:1] pairs.



(2:1/1:2 binary spillover)

2:3 or 3:2 Plan: Commissions paid once the left and the right leg achieves 2:3 or 3:2 sales volume.

Example: Distributor A sponsors two distributors X & Y and added to the binary tree. The commission payment criteria are set to a 2:3 or 3:2 ratio. Distributors get $10 for each pair.



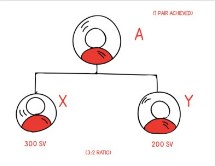
(2:3 binary spillover)

Case 1: Distributor X achieves 200 Sales Volume (SV) and distributor Y achieves 320 Sales Volume (SV).

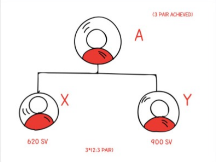
The legs have achieved a 2:3 ratio hence distributor A gets $10 as commission. The 20SV on the right leg is carried forward to the next binary payout cycle.

Case 2: Distributor X achieves 300 Sales Volume (SV) and distributor Y achieves 200 Sales Volume (SV).

The legs have achieved a 3:2 ratio hence distributor A gets $10 as commission. The binary payout cycle is paid either daily, weekly, or monthly based on company rules.



(3:2 binary spillover)



(2:3 binary MLM spillover)

Case 3: Distributor X achieves 620 Sales Volume (SV) and distributor Y achieves 900 Sales Volume (SV).

The binary tree has achieved a 2:3 ratio hence the distributor A (sponsor) gets $30 as commissions. Here three 2:3 pairs are achieved, hence 3*($10)=$30 commission.

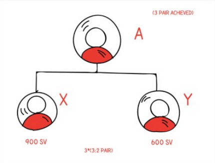
620:900 SV - Three [2:3] pairs

The extra 20 SV made by the left leg is carried forward to the next payout.

Case 4: Distributor X achieves 900 Sales Volume (SV) and distributor Y achieves 600 Sales Volume (SV).

Both legs have achieved a 3:2 ratio hence the distributor A (sponsor) gets $30 as commissions. Here three 3:2 pairs are achieved, hence 3*($10)=$30 commission.

900:600 SV - Three [3:2] pairs.



(3:2 binary MLM spillover)

Note: The ratios can vary from company to company, they may choose 1:3 or 1:4 or any other custom pair as per the requirements.

Binary capping:

MLM companies usually set a capping value for compensations to assure financial stability. Overflow of payout in terms of compensations can diminish the turnover generated by the companies.

The capping will be based on either Sales Volume (SV) or commissions.

Sales volume-based binary capping: Binary companies set capping value based on the sales volume achieved by distributors, compared with the enrollment package price.

Example: Suppose distributor A makes a sales volume of 200 from his left leg and 300 on the right leg. The company has set a weekly binary capping of 100 SV.

The commissions will be calculated only for this capping value. The extra SV of 100 from the weak leg and 200 on the strong leg will be flushed out. This value won't be considered for the next binary cycle.

The capping can be set as per the company's preference i.e.daily, weekly or monthly capping.

Commission-based binary capping: Binary companies set capping based on commissions earned or achieved by the distributors, compared with the enrollment package price.

Example: If distributor X joins the binary MLM company with a $1000 package, the company sets a capping value of $10000 as commissions. The distributor won't receive any commissions more than this value ($10000). This capping can be set based on a daily, weekly, or monthly basis.

Compensations in binary plan

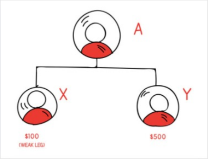
Compensations are received based on the distributor performance or by achieving the criteria set by binary plan companies.

Binary bonus:

A percentage of bonus paid based on the weak leg sales volume.

Example: In a binary network, the left leg made a sales volume of $100 and the right leg of $500.

- 10% of weak leg volume ($100) is provided as a binary bonus i.e. here $10.
- The binary bonus value (percentage) is set by the binary compensation companies.



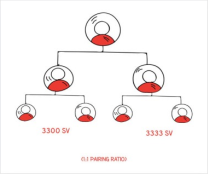
Pairing bonus:

Qualified distributors receive a bonus if they achieve balanced sales volume in each leg.

Example: Binary network has made 3300 sales volume 'on the left leg' and 3333 SV 'on the right leg.'

If the pairing bonus is set to 1:1 ratio, 10% of every 100 sales volume then,

- In monthly binary payout cycle, the distributor will receive 33*10=$330 (completed 100 SV pairs are 33).
- The remaining sales volume is carry forward to the next binary payout cycle date (33SV in the right leg).
- For instant pairing binary payout cycle - pairing bonus will be provided once the legs complete the 1:1 bonus ratio (100 SV in left and right legs).

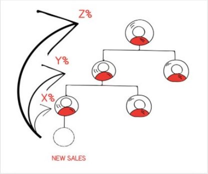


Matching bonus:

The sponsor receives a percentage of bonuses achieved by the downline members.

Example: Distributor X sponsors Y & Z and added them in the binary tree as direct downlines.

- Later on, Y sponsored two members and earned a sponsor bonus of $10.
- X who is the sponsor of Y receives $1 as a matching bonus (matching bonus is set to 10% of downline member bonus).

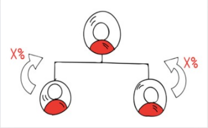


Direct referral bonus:

Bonus received for referring new members into the binary tree.

Example: The distributor refers two members and added them to the referral tree. Now the distributor receives a direct referral bonus for sponsoring two members in the binary tree.

- They joined the system by choosing a $100 package.
- Here the distributor gets 10% of the package price for both new members i.e. (10% of $100) which is $10.
- In total, the distributor gets $20 ($10*2)as a direct referral bonus.



The direct referral bonus criteria are set based on the company's marketing regulations. This varies from company to company.

Return Of Investment (ROI):

Distributors receive a fixed amount or percentage of the investment they made in the binary business.

Example: A distributor joins the binary network and invests $20,000 for their binary system. During daily/weekly/monthly they get a percentage of their investment as a return. A Return Of Investment (ROI) rate is set by the business admin and subject to vary.

Custom bonus:
Most of the MLM companies develop their own custom bonuses to motivate and attract more people into the network.

Advantages/Benefits of Binary MLM Plan

Unlimited depth: Binary plan allows distributors to add members to unlimited levels and earn a high income.

Group work: With left leg or right spilling preferences, the distributors become active as they have to balance the tree for compensations.

Quick growth: Binary plan offers quick business growth opportunities.

Carry forward: Unpaid sales volume (SV) after present binary payout cycle is carry forward for the next binary payout cycle.

Spillover: New members after completing the first level is spilled over to the unlimited downline levels.

Hybrid binary plan

A binary plan can be modified by combining with other compensation plans. **Why should an MLM company go for a hybrid plan?**

MLM company strategies vary and they might even have their own custom plan to add in the existing binary plan. The plans are chosen by analyzing the present marketing situations. With the best marketing plan, companies can become popular and beneficial in productivity.

Other terminologies in binary plan

Inside leg placement: Inside leg placement is used to balance the legs in the binary tree. Distributor will add new members to the weak leg to balance the sales volume and active participation is assured.

Cycle point: A minimum sales volume is set for commission payment by binary companies. The pay leg must meet this volume or else the commission won't be commenced until it meets the cycle point.

Individual volume threshold: A sales volume threshold is set to make sure every distributor contributes to the binary business.

Leg flush:MLM companies can flush out both weak and strong leg sales or reset sales volume to zero

Learn more MLM terms from **MLM glossary**!

Binary MLM calculator

Yes, the binary plan has been popular since the early days and the calculations were made manually. However, a binary system calculation with many networkers is a clutter-job. The emergence of binary calculators or simulators resolved this difficulty.

By providing the necessary input on the **binary calculator** like the package details, compensations, and other expenses, an output can be simulated.

Popular companies using Binary compensation plan

#	Company	Revenue(2018)	Revenue(2017)	Growth Rate
1	Herbalife	4.9	4.43	11%
2	Natura Cosmeticos	3.37	3.09	9%
3	Jeunesse	1.46	1.30	12%
4	Sunhope	1.4	1.54	-9%

5	Ambit Energy	1.3	1.15	13%
6	USANA	1.189	1.047	14%
7	Atomy America Inc	1.150	1	15%
8	Lyconet	1	0.8	25%
9	Isagenix	0.89	0.958	-7%
10	Market America	0.837	0.82	2%
11	Quanjian	0.7	0.786	-11%
12	It Works! Global	0.6	0.645	-7%
13	Hinode Cosméticos	0.528	0.528	0%
14	Plexus Worldwide	0.527	0.562	-6%
15	Optavia - Medifast	0.501	0.301	66%
16	Younique	0.4	0.45	-11%
17	Neora	0.4	0.45	-11%
18	WorldVentures	0.377	0.85	-56%
19	Stella & Dot	0.3	0.31	-3%
20	Alliance In Motion	0.238	0.22	8%
21	Naturally Plus	0.236	0.111	113%
22	Alphay International	0.225	0.252	-11%

Upcoming trends in Binary plan

The above popular companies list is extracted from a study conducted by our research team. Based on this study, MLM companies prefer binary over other plans and the reason is to make business more productive & active.

There is an observable trend found after the analysis - "hybrid plan". Many binary companies use a hybrid version of the other compensation plans in their business model.

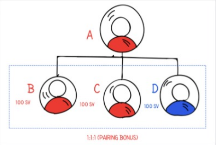
Unique marketing strategies with the existing benefits of the binary plan make the best combo. This marketing strategy might have created a trendline and this trend will explore new opportunities in the near future.

Binary plan variants

Tri-binary plan

Tri-binary plan, as the name suggests, does have three legs. Here, a proper pairing ratio needs to be followed. Three legs have to meet the pairing ratio set by the company say, 1:1:1.

From the above example, distributor A receives a pairing bonus when they match the sales volume in each of the three legs. The plan structure in a tri-binary plan look like,

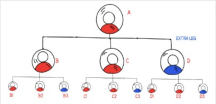


(Tri-binary plan)

The plan can also be called by another name - 3*infinite matrix plan. Like in the matrix compensation plan, the structure has a definite width but unlimited depth or height.

Australian Binary Plan

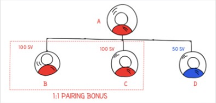
Apart from the normal or basic binary plan, there is another business plan known as "Australian binary plan". The plan has a three-leg structure instead of a normal two-leg binary tree. However, like tri-binay plan, three legs need not have to match to become eligible for compensation i.e. no need to follow (1:1:1) ratio.



(Australian binary plan)

Here, A sponsors B, C, and D to his/her binary tree as three legs. Similarly, the rest of the downlines add new members in three legs on their downlines. The sales from three legs differ and the pairing is achieved if any of the two legs match.

Distributor A receives a bonus when any of the two legs match the pair. If B & C pair matches a ratio set by the company (1:1, 1:2, etc.) distributor A gets a pairing bonus. Distributor D might not have achieved the desired sales but still, distributor A becomes eligible for compensation.



(1:1 pairing in australian binary)

The rest of the plan process is similar to a normal binary plan but with an additional leg (third leg).

Rules & Regulations - Legal compliances in Multilevel Marketing

There are many legal guidelines an MLM company must follow and not everyone is aware of these laws. These laws vary from country to country but there is some common legal compliance a company must govern.

Here are certain rules one must follow in MLM business. Make sure you follow these rules, you can mark the box available in each field. If you're a distributor then make sure your company follows them.

#	**Law Compliances**	**Yes**	**No**
1	Real products to sell	☐	☐
2	Compensations for recruiting only (No compensation for product sales)	☐	☐