

Starter Kit Strategy

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Starter Kits. Business Kits. Enrollment Kits. All of these names refer to the same thing: a packet of materials and/or products that is purchased at the time an individual enrolls with your company to become an Independent Business Owner (IBO). More importantly, this represents a strategy.

There are many types of companies in our industry.

- Internal/Self Consumption companies center their pricing strategy on the IBO/Wholesale (discounted) price, which results in most customers enrolling as an IBO in order to purchase at that price.
- Customer/Retail Biased companies center their pricing strategy on the Retail Price and their IBOs focus on selling their products to customers who will purchase at the Retail Price and use the products without enrolling as IBOs.
- Affiliate Programs are kind of a hybrid of the two. I say “kind of” because it is not really as simple as that sounds. There are some unique nuances and very few companies fall into this category. For that reason, the Affiliate type is not addressed within this article.

While this explanation of business types has been simplified, it isn't necessarily a choice of one or the other, it's a spectrum with Internal Consumption on one end and Customer Biased on the other end and most companies fall somewhere in between. There are companies that have succeeded and failed throughout the spectrum so there is no right or wrong choice. Alignment to business type, including the Starter Kit, is critical to success.

The Starter Kit strategies differ based on where your company is on the spectrum and it is vital that you understand how this impacts your desired business type. For purposes of this discussion, we will refer to strategies of the Internal Consumption and Customer Biased companies, even though many companies have a bit of both.

In this three part series, we will address the following Starter Kit related strategies:

- 1) Pricing
- 2) Products/Materials
- 3) Presentations

Strategy #1: Pricing

The Starter Kit is not merely materials and products, it is a strategy that creates a healthy “barrier to entry” that can (when desired) separate customers from business builders. It creates a monetary gateway that an individual passes through, whether low or high, when enrolling as an IBO. While you may question the logic of creating barriers for a potential IBO, it is important to understand how this decision will impact your business type.

When the price of the starter kit is low, your barrier to entry is low. Many of the people that join your company are likely to be customers who want to buy your products for the best possible price – like a buying club. This is the nature of the Internal Consumption business type and is reflected in common starter kit pricing ranging from \$10-\$30.

In this low price scenario, very minimal commitment is made at enrollment so while the customers become IBOs, they do not act like IBOs. These companies will have some business builder IBOs that develop very successful teams made up of a few business builders and lots of customer-IBOs. While the average per IBO sales volume may not be high, the number of IBOs makes up for that.

Higher priced Starter Kits create a stronger barrier to entry. This often results in fewer IBO enrollments but higher commitment to building a business and thus higher per IBO sales volume. In Customer Biased companies, the IBOs count on the retail profit that they make when they sell to customers (who purchase at Retail) as a major source of income. In order to protect this vital aspect of the business, companies of this model should price their kit high enough to discourage customers joining solely for the discount and ensure that the starter kits have the proper mix of materials and products (this will be addressed in strategy #2).

Unfortunately, failure to price the Starter Kit appropriately has destroyed many companies in our industry. A Customer Biased company that fails to protect the retail profit will find that their IBOs do not make enough money for it to be worth their time selling and building a business. When earnings are not sufficient, an IBO will stop working their business and become a customer purchasing at discount. The company will find themselves unintentionally moving more towards an Internal Consumption model.

For example, an IBO who sells \$1,000 in products to customers might earn a 25% retail profit of \$250. If those same customers enrolled as IBO's, they would get a 25% discount – in other words the retail profit to the seller becomes a discount to the buyer. The sponsor (seller) who would have earned \$250 had they stayed as customers might now earn 10% on the IBO wholesale price (\$750) = \$75 total (instead of the 25% profit on the retail price). If the sponsoring/selling IBO had spent 10 hours finding those customers and taking their orders, then they would have earned \$25 per hour for their time when those individuals were customers. When the customer became IBOs, that dollar-per-hour dropped to \$7.50. When an IBO joins your company to make money, the \$25 per hour is critical to achieving their goal as quickly as possible, thereby making the barrier to entry vital to protecting the retail profit.

As a rule of thumb, the higher your Starter Kit price is, the more Customer Biased you are and likewise, the lower the price, the more Internal Consumption focused

you are. If I were to place a price on the Starter Kit for a company right in the middle of the spectrum, in today's economy, it would be somewhere in the range of \$50-60.

Please note that there are some legal requirements regarding the Starter Kit pricing in the USA. There are a number of states which specify a maximum amount that you may charge for the kit and there are rules that govern the cost of goods for the kit versus the selling price. Please check with your industry attorney for specific information on the legal aspects of the Starter Kit.

In summary, the pricing of your Starter Kit is a very important strategy that should be considered in your business in order to create alignment between your kit and the business type that you intend to be.