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Millionaires

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IF YOU'RE IN THE DIRECT SELLING BUSINESS, TODAY'S TECHNOLOGY AND TRENDS ARE YOUR FRIENDS. BE POSITIONED TO PROFIT FROM THE DISTRIBUTION REVOLUTION.

BY PAUL ZANE PILZER



Many people spend their lives worrying about money: How to earn a living, keep up with expenses, buy a house or save for their future. When it comes to making money, what worked yesterday often doesn't work as well today, and may not work at all tomorrow.

The knowledge many people have of business today is similar to a doctor's knowledge of medicine at the beginning of the 19th century. In the early 1800s, doctors administered medicines and observed which ones cured which diseases. But when a medicine worked, doctors didn't know why. Bacterial infections hadn't yet been discovered—let alone the antibiotics and immunizations we now use to treat them.

Once these secrets were discovered, doctors learned more about how the human body works, and they were able to cure many of the diseases—such as smallpox, typhoid and polio—that had been the scourge of mankind for millennia.

To create wealth and succeed in business today and tomorrow, you must understand how economics work—why people behave as they do, and why businesses succeed and fail. Without understanding economics, many people fail because they are trying to capitalize on an opportunity that has come and gone ... or they are simply too slow to react to new trends. This is truer today than ever before

because our business environment is changing faster and faster.

THE END OF SCARCITY

The most important message for direct sellers is this: If you want to become wealthy in the next five years, technology—using new and improved ways to get things done—is your best friend.

Many economists and writers on economics today don't understand how wealth is created. The study of traditional economics is defined as the study of scarcity—how to distribute a limited supply of critical resources such as farmland, minerals, food, fresh water. Communism, socialism, capitalism, and so on, are all theories of how economies should function.

I believe that there is no real scarcity. What matters is the technology you're using. Throughout history, every time society was about to run out of a supposedly scarce resource—like coal—people invented new resources—like oil—to replace it. Today we use technology more effectively than ever to get more out of "scarce" resources or replace them with better ones.

In 1974, when the U.S. faced its first critical shortage of gasoline, cars averaged 10 miles per gallon. By 1981, the U.S. solved most of its oil shortage by replacing mechanical carburetors in cars with electronic fuel injectors, raising average automobile gas mileage to 20 miles per gallon or more. This had the same effect as doubling our supply of oil.

In my book, *Unlimited Wealth*, I write that it isn't physical resources that make you wealthy; it is technology that makes you wealthy. Otherwise, Japan, which in the 1980s had the lowest per capita level of physical resources such as land, fresh water and oil in the developed world, should have had the lowest amount of wealth per capita—but it had the highest. The former Soviet Union, a nation with the largest per capita amount of physical resources, would have had the highest level of wealth. But it had the lowest—so low, that by 1991, the USSR ceased to exist as a single nation.

TECHNOLOGY: WHAT IS HOT TODAY WILL BE OBSOLETE TOMORROW

Look at the sheer speed of technological change in our time. In 1930, there were 30 million farmers in the U.S. barely producing enough food for 100 million people. By 1980, there were only 3 million farmers left producing one and a half times the food required for 300 million people. Is this because they acquired more farmland? No, it was because farmers got more technology and increased their productivity per farmer 45 times and their productivity per farm 100 times.

In 1980, approximately 300,000 people worked in the U.S. making and repairing \$300 mechanical carburetors when the automakers embraced \$25 electronic fuel injectors—which doubled fuel economy and almost halved pollution. By 1985, when the last U.S. carburetor plant closed, these 300,000 people were out of work. The destruction of that industry took only

five years—one-tenth the amount of time it took for most of America's farmers to become redundant.

In 1985, when the digital audio CD came out, about 100,000 people in the U.S. worked making vinyl records. By 1990, there wasn't a vinyl record plant left in the U.S. and these 100,000 people were thrown out of work.

Similarly, it took 20 years, from 1976-1996, to go from zero to 135 million VCRs in U.S. households, but only two years, 2003-2004, for the DVD to decimate the VCR industry and eliminate the jobs of almost 100,000 people working with VCRs and VHS tapes.

Because technology is now changing faster than ever before, in every industry, the person who attains the most wealth is the one who manages or has the most technology versus the most physical resources.

THE WEALTH OPPORTUNITY TODAY IS IN DISTRIBUTION

Back in the 1960s, when you went into a department store and bought something, about 50 percent of the retail price represented distribution costs and 50 percent represented manufacturing costs. Over the next two decades, many people became millionaires by finding cheaper ways of making things, often by shipping production overseas and using new materials like plastics. These 1960s entrepreneurs lowered the cost of manufacturing so much that soon, the price of a typical retail item represented only 20 percent manufacturing costs and 80 percent distribution costs.

Then, beginning in the late 1970s, innovative entrepreneurs found ways to drive down that 80 percent distribution cost. Three entrepreneurs whose companies took off during that period, making them among the richest men in the world, included Sam Walton, whose Wal-Mart stores pioneered the use of technology to control inventory and lower costs; Fred Smith, whose Federal Express company linked the country and

WATCH THE SIGNS!

WHAT DO THE ISSUES YOU FIRST TALKED ABOUT IN THE ORIGINAL EDITION OF *UNLIMITED WEALTH* IN 1990 HAVE TO DO WITH WHERE WE ARE TODAY?

We are in the same period of opportunity and growth that we were at that time. Then, as now, many people didn't realize it. In 1989, the most popular book in the U.S. was *The Great Depression of 1990* and most experts were predicting a decade ahead of economic gloom.

YOU THOUGHT DIFFERENTLY. DID YOU GET ANY SIGNS THAT YOU WERE ON THE RIGHT TRACK?

For one thing, shortly after *Unlimited Wealth* was released, I received a phone call from Sam Walton, the founder of Wal-Mart and then the richest man in the world. Sam told me, "Professor Pilzer, my sons and I don't usually have much time for you economist types. But your book, *Unlimited Wealth*, and your theory of economic alchemy, explains why many things we've tried in the past didn't work out, and why many things did. But more importantly, it has given us a new way of thinking about the future for making decisions tomorrow."

WHAT DO YOU SEE HAPPENING TODAY?

Although our economy turned around in 2004, and the Dow Jones fully recovered before 2005, many people have not yet emotionally recovered from the 2001 economic hiccup caused by 9/11. And, sadly, most of these people will not only miss out on the next opportunity, they will probably also lose their jobs by not being able to react in time.

FOR PEOPLE WHO WANT TO CREATE WEALTH, HOW IMPORTANT IS IT TO WATCH TRENDS?

The prosperity I'm predicting over the next five years is going to be even more selective than it has been in the last 15 years. What do I mean by Selective Prosperity? It's the people who are on the right part of the technology and distribution curve: The people making DVDs versus VHS tapes; the people intellectually distributing wellness and prevention versus symptomatic sickness care; the people learning how to best use the Internet to their advantage. These are the people who will profit as others fall by the wayside.


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... IT ISN'T PHYSICAL RESOURCES THAT MAKE YOU WEALTHY; IT'S TECHNOLOGY THAT MAKES YOU WEALTHY.

much of the world with rapid, guaranteed delivery service; and Ross Perot, founder of Electronic Data Systems (EDS), a pioneer in the computer storage of business and government records, which is to say, the distribution of information.

You might think this suggests that the big money in distribution has already been made. Not so! Despite a massive lowering of distribution costs by Wal-Mart and others, distribution costs today still make up approximately 80 percent of total retail prices. Why? The advent of new manufacturing methods and the emergence of China as the "world's manufacturer" have been lowering the cost of manufactured goods!

THE #1 BUSINESS OPPORTUNITY: "INTELLECTUAL" DISTRIBUTION

The success of Wal-Mart and other mass

merchants has created new opportunities—particularly for those individuals seeking a part-time or full-time home-based business—that could exceed the opportunity seized by the distribution billionaires of the last three decades. Ironically, this opportunity was created by the very success of the mass merchants themselves—and it is tailor-made for direct sellers to exploit.

For 100 years, prior to the emergence of Wal-Mart, Target and Costco, retailing in the United States was dominated by department stores like Macy's, Filene's and Marshall Fields. These distribution giants of their time simultaneously performed the two critical functions of distribution:

(1) Intellectual Distribution—Teaching consumers about products and services that will improve their lives, typically



items that they either don't know exist or don't know are now affordable; and

(2) Physical Distribution—Physically delivering to consumers the products and services they already know they want.

Then consumers started spending a smaller proportion of their money on

THE FORMULA FOR WEALTH

Here is the only mathematical formula in my books: A simple, yet powerful tool that anyone can use to determine his or her potential for creating unlimited wealth:

Wealth is created according to this equation: $W = P \times T$

To create wealth (W), you need physical resources (P) harnessed by technology (T). More than just explaining the wealth of nations, $W=PT$ explains how different businesses could amass great wealth by focusing on either P or T. In retailing, during the 1980s and 1990s, Sears and J.C. Penney attempted to grow by getting more physical resources—more stores. But Sam Walton, the founder of Wal-Mart, focused instead on using technology to increase sales per square foot in his existing stores from \$100 to \$300. Walton's strategy soon made Wal-Mart the largest retailer, employer and company on the planet.

$W=P \times T$ has been true throughout world history, except that T used to change so slowly it was constant over a human lifetime. If you were born in the Stone Age, you probably died in the Stone Age, with little or no chance to improve your T. No wonder acquiring more P, typically through wars or conquest, was the only way to get wealthy for most of human history. But today, we live in an age where anyone can acquire more T, and thus more wealth, often in a few years, instead of a lifetime or several generations.

In applying this wealth formula to a home-based business, you

are the P. Your P is maximized by the number of waking hours you (and others) devote to the business and how much product you sell. With a direct selling business, your P is further maximized through the recruitment of others starting their own business and consuming your company's products and services. To attain more wealth, you would want to focus on adding both more people to your business and the sale of more products.

Now, consider your T (technology) as the skills you bring to your home-based business. This is where the direct selling industry sets itself apart from other business opportunities. Your T is your set (and level) of existing skills—computer proficiency, public speaking ability, sales knowledge and so on—and the skills you need to acquire or improve to have a successful business—learning how to sell, how to teach others to sell, improving one-on-one communication techniques.

Direct selling companies are designed to handle for you the physical (P) distribution of the products and services you sell—manufacturing, inventory, ordering processing, accounting, shipping, etc.—so that your primary business focus is on finding and recruiting more customers. Moreover, since a direct selling company's success is directly dependent on your success, they also have a vested interest in helping you improve your technology (T)—providing extensive product research, sales training, marketing materials, websites, etc.

“durable” goods such as major appliances and televisions, and more on “consumable” goods like cleaners, paper towels and batteries. Consumers who buy supplies just want to get them and go. For this purpose, the one-story, big-box stores, with their focus on convenience and speed, decimated the multi-story department stores.

However, to be convenient and fast, the mass merchants left out a critical aspect of the buying transaction. Mass merchants ignored the intellectual distribution part of the equation. Mass merchants don't take the time to teach anyone about new products. They sell their customers exactly what they already knew they wanted before they walked in the store.

Educating people on new products and services is now the #1 business opportunity for those who are looking to create long-term wealth. Manufacturers in virtually every field create new products on an hourly basis—often products that can deliver great benefits, lower prices or both to consumers. But in today's mass-communications world, there is no efficient way to teach consumers about these newer and better products. The mass merchants don't do it and the department stores of yesteryear are no longer in business. This creates an enormous opportunity, especially for people looking to start a home-based business.

Today's new fortunes in distribution are being made by retail entrepreneurs who focus almost entirely on teaching consumers about new products and services. They don't handle the products, but rely on services like UPS or Federal Express to physically deliver them.

Hasn't the Internet successes of recent years solved this intellectual distribution component? Actually, it hasn't. Sure, one of the Internet entrepreneurs, Jeff Bezos, the founder of Amazon.com, became *Time* magazine's "Person of the Year" in 1999 for pioneering online intellectual distribution. If current trends continue, the fortunes of new intellectual-distribution billionaires like Bezos (age 40, net worth

\$4.3 billion) and eBay founder, Pierre Omidyar (age 36, net worth \$8.5 billion), are poised to surpass the physical distribution billionaires of yesterday.

However, these online visionaries are filling only a small percent of the critical need in our economy for intellectual distribution. This is partly because their medium, the Internet, represents less than one-tenth of total retail sales. But mostly, it's because, when it comes to motivating consumers to try a new product or service, there is currently no substitute for one-on-one, person-to-person contact, which no computer can provide.

Direct selling is the perfect intellectual distribution business for today's economy. A home-based business doesn't require a

about their new products and services.

Only one form of intellectual distribution appears to be able to fill this gap: the modern direct selling industry.

Direct selling is actually the oldest form of selling. For most of human history, direct sellers were peddlers and the primary distributors of tools and technologically-based goods. They initially handled both intellectual and physical distribution for their wares, until the development of third-party shipping and postal systems allowed them to concentrate on intellectual distribution and simply take orders. Then, in the 19th century, many direct sellers put down roots and became general store and department store merchants.

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storefront, warehouses, employees or massive back office support operations. It only requires one person—you—willing to handle the education, the intellectual component of the distribution process.

DIRECT SELLING—THE LATEST (AND OLDEST) METHOD OF INTELLECTUAL DISTRIBUTION

To change the brand a consumer uses, or to get him or her to try a product he or she doesn't know exists, the consumer must have direct contact with another human being. The department stores of yesterday did this automatically. They routinely staffed each part of the store with salespeople trained in their department's specialty. The demise of these stores has left manufacturers grasping at straws when it comes to finding a method to efficiently teach consumers




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**FOUR PREDICTIONS
FOR THE NEXT FIVE YEARS**

- 1) The next five years offer you better opportunities to become wealthy than any time in the past 100 years. This is because of new technology and recent changes in U.S. law.
- 2) The businesses that will prosper most will be in distribution. However, this will not mean distributing physical boxes of product, but providing information about innovative products and a convenient means of ordering them. I call this intellectual distribution.
- 3) Direct selling is the most effective way to create wealth through intellectual distribution.
- 4) The number of U.S. millionaires will increase 50 percent, from 7.2 million today to 10.8 million by 2010. Many of these 3.6 million new U.S. millionaires will make their fortune in the direct selling industry.

**REASON #1: ENTREPRENEURS
HAVE ACCESS TO
BETTER TECHNOLOGY**

After I earned my MBA from Wharton, I worked for Citibank from 1976-1981, primarily because I wanted access to the best technology. Computers back then were expensive mainframes owned and internally managed only by large businesses. This gave major corporations an enormous economic advantage.

However, the opposite is now the case. In almost every field today, the individual entrepreneur has better technology available than the large company does. This is because many of the largest companies

employers are allowed a 100 percent tax deduction for health benefits they provide; and (3) The employees can defer paying taxes on contributions their employers make to their retirement plans.

Now, individual entrepreneurs can actually get better health and retirement benefits than employees of large companies. The best health insurance available today for most families is an individual, rather than group, policy because the premiums on an individual policy cannot generally be raised because of illness. And new Health Savings Accounts give individuals the same tax advantages as corporate employees.

Since 2003, there have been individual health insurance policies that are both affordable and tax-deductible for self-employed people. Employees, on the other hand, typically are stuck with group plans for which the premiums are raised each year based on the prior year's claims. Such group plans are a ticking time bomb as the group ages.

Most people think of IRAs as small, insignificant retirement accounts. However, beginning in 2005, a working couple can contribute \$8,000 annually to an IRA, rising to \$10,000 in 2008. IRAs not only allow all the benefits of a traditional corporate retirement plan, they also allow tax-free early withdrawals at any age for life events such as a first-time home purchase or the payment of health insurance premiums while unemployed.

If you have your own business, the retirement savings options are even better! With a self-employed retirement account such as a SEP IRA or a One-Person 401(k)/Profit Sharing Plan, you can save up to \$41,000—pretax—each year.

Why did Congress change these laws and create such wonderful incentives? They had to. Today more than 50 percent of Americans work either for themselves or for a small business.

**REASON #3: YOU DON'T
REALLY HAVE A CHOICE**

In 1991, the Nobel Prize for Economics

THE MODERN DIRECT SELLING INDUSTRY IS POISED TO BECOME THE DISTRIBUTION METHOD OF CHOICE FOR ALL NEW PRODUCTS AND SERVICES,

Today, the modern direct selling industry is poised to become the distribution method of choice for all new products and services. Direct sellers bring the best of both intellectual and physical distribution to their consumers:

- (1) Direct sellers speak one-on-one with consumers;
- (2) Direct sellers use the best third-party methods of physical distribution, such as Federal Express or UPS, to deliver the merchandise; and
- (3) Direct sellers use the Internet and other instant technologies to keep consumers informed of minor updates and to facilitate re-ordering and maintain back-office accounting functions.

**FOUR REASONS TO START YOUR
OWN BUSINESS IN 2005-2010**

There has never been a better time in history to quit your employer and start your own business.

(IBM, Cisco, Vodaphone) are simply third-party providers of affordable technology to individual users, and entrepreneurs are able to implement their new technologies faster than large organizations.

A home-based businessperson has the ability to harness technology from a personal computer and a connection to the Internet that can rival or exceed that of some of the largest companies.

**REASON #2: HEALTH AND
RETIREMENT BENEFITS ARE NOW
BETTER FOR ENTREPRENEURS**

One reason many people work for large organizations is for the medical and retirement benefits. From 1944 until 2005, employees of large companies enjoyed a 2-to-1 or better tax advantage over individuals when it came to paying for benefits. This was because: (1) Employees who get free or low-cost health benefits don't have to pay income taxes on them; (2) Their

was awarded to Professor Ronald Coase for a paper he had written 60 years earlier. His 1931 paper explained why large companies exist rather than there just being millions of self-employed people: Big companies were more efficient. The “transaction costs” of individuals doing business together who weren’t under one roof were so high—with transportation costs, telephone expenses, postal delays and so on—that costs would exceed their economic output. For the next 60 years, Coase’s work was used to explain the growth of America’s largest corporations.

Recently, I re-ran Coase’s original equations with today’s data and came to exactly the opposite conclusion: Many large organizations should no longer exist because with the Internet, fax and inexpensive telephone service, the “transaction costs” of individuals doing business together are now relatively insignificant.

In fact, much of the unemployment we are experiencing today is actually the permanent dismantling of many of our large corporations as they are out-competed by smaller companies.

Individuals have debated leaving their jobs and becoming entrepreneurs since the first large employers emerged in the 19th century. But, until now, this debate has always focused on the opportunity and risk of going out on their own. Today, the real risk of staying with a large organization is that your job will be permanently dismantled within the next few years.

After speaking on this topic at conferences around the world, I am frequently asked, “Should I quit my job before I am fired?” While such an answer is personal and unique to each person, my general answer is “Yes. Find a business where you can use and leverage your skills for the highest return.” One of the unique benefits of starting a direct selling business is you can start the business today, part-time, with a minimal investment. I know of no other business opportunity that can help you more easily and effortlessly seize the new intellectual distribution revolution opportunity.

REASON #4: THE ECONOMIC OPPORTUNITY OF 2005-2010

As we enter the final half of this decade, our economy is in only the 15th year of a four-decade economic expansion that began in 1991, although many people don’t realize it because of the 2001-2004 economic hiccup caused by 9/11.

During the past few years, many companies have proven their role in this technology-driven expansion. Many are built around new methods of intellectual distribution. Equally important, some of these companies are actually providers of business opportunities themselves rather than a mere place of employment. At such companies, notably direct selling companies, you can have your cake and eat it too, by entering a field proven by others while still owning your own business.

It took the U.S. economy 215 years (1776-1991) to reach a level where 3.6 million families had a net worth exceeding \$1 million. Then, after a brief period of economic decline in 1990, it took only 10 years for this number to double to 7.2 million U.S. millionaire families by 2001.

Today, the U.S. and the world economy look almost identical to how they looked in 1991, except that there are more opportunities for entrepreneurs due to recent changes in taxation and technology. Because of these reasons, I am predicting that an additional 3.6 million U.S. million-

aire families will be created in the remaining five years of this decade—raising the number to 10.8 million by 2010.

The majority of these new million millionaires, of course, will be entrepreneurs. It is my fervent hope that you will be one of them.

The 21st century we have just begun will be known as the Age of the Entrepreneur, led by a new Distribution Revolution. It will be a time when Americans and others from many of the world’s capitalist economies will return to their roots of individual family-owned businesses. And, with this return will come not just enormous personal wealth for those who get there first, but also the resulting moral and family values, as well as freedom, that come with owning your own business and controlling your own destiny.



Professor Paul Zane Pilzer has served as economic advisor to two U.S. Presidents and is the author of five best-selling books, including *Unlimited Wealth*, *The Next Trillion* and *The Wellness Revolution*. His books have been published in 24 languages. Pilzer has started several entrepreneurial businesses—earning his first \$1 million before age 26 and his first \$10 million before age 30. Over the past twenty years, he has started and/or taken public five companies in the areas of software, education and financial services. Pilzer lives in Utah with his wife and four children where they are avid snowboarders, mountain bikers and chess players. To learn more about Paul Zane Pilzer, please visit www.paulzanepilzer.com.

