

UNCOMMON COMMON SENSE IN THE 21ST CENTURY

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During a recent meeting with my think tank, a visitor asked one of the most difficult questions they have ever fielded.

“Is it possible to profit from the current sluggish economy, without the cash reserves to buy real estate or stock?”

The answer is **YES**.

However, the full answer is a little more complicated than that one syllable affirmation. The think tank had four bullet points on which they waxed eloquently for an hour.

1. Don't scoff at a mere \$100.00 a month.
2. A little improvement can save the day.
3. Lots of little bits can make a lot.
4. Secondary economies are resilient and tax advantaged.

1. Don't scoff at a mere \$100 a month.



Inflation means losing just a little bit of buying power every month, sometimes (as with gasoline) every day. Because of price increases for groceries, as well as gasoline, most Silicon Valley families are beginning to feel the strain on their finances. The think tank suggested small businesses and employees first learn to create a small income stream to replace that which has already been lost due to inflation.

For example, the average family in Silicon Valley earns \$68K per year, and owns two cars. If each car has the gas tank filled twice a month, then this average family will be spending \$40.00 to \$80.00 a month more for gasoline this year than they did last year. Add onto that an extra \$20 to \$40 that has to be paid at the check out line in the grocery store and you will begin to see how the economy is impacting our families.

Here's the kicker ... last year, the TYPICAL family (nationwide) who re-directed their shopping dollars, received an average of \$115.00 a month in rebate profit, primarily from their own purchases, every month, all year long. That small amount is a good example of the small supplemental income stream the think tank described.

Nota Bene: In 1995, I reviewed some studies about the escalation of bankruptcy in the USA. The results surprised me. I learned that 80% of families that declared bankruptcy could have prevented bankruptcy with just \$200 a month extra a month. Unfortunately, in 1995 I did not have the knowledge, or resources, to help people create even small trickles of income to augment their finances. Now I do.

2. How can you produce a **little improvement**? Before continuing, see if you can answer this questions.

How much income does a store have to make in order to stay in business ... IF THE STORE HAS NO EXPENSES?

How can a household become a store with only “virtual” inventory located on a website, not in their garage?

If a business owner buys “stuff” from his own business, is he really making any profit from his own purchases?

As you can see from these questions, a little improvement is not easy to explain. Please bear with me while I introduce some really simplistic ideas in order to move on to more complex ideas.

For all of your life, you have shopped in local stores. Every time you would make a purchase, the store would make some profit. If the store did not make a profit, the store went out of business. In order to remain in business, a store has to produce income greater than their expenses. (Profit is defined as income less expenses.) If a store sells \$1 Million a month but has expenses of \$1.0001 Million (-\$100), the store goes broke. Now, imagine that the store

sells \$1 Million a month but has expenses of only \$0.999,900 Million (+\$100). The store would make a profit of \$100.00.

Next imagine a store that only earns \$100.00 a month but has no expenses. Does not the store selling \$1 Million with a profit of \$100.00 have the same profit as the store that only had \$100.00 in sales but no expenses? That is what is called a little improvement.

If you are following along with me, then the question rattling around in the back of your head is this ... How can you have a business with no expenses? Such a thing is essentially impossible. Where is the inventory, clerks, shipping department, receptionist, bank of telephones, and all the myriad of other things that make a real business ... a real business?

Wait a moment, because here comes the internet in which all business is more virtual than real. Consider these concepts.

A website store may be located in a server in an office in Sunnyvale, but the inventory could be in a warehouse in the Nevada desert. If a customer walks into the office in Sunnyvale, where is the business?

The inventory is virtual in the office, but real in the warehouse in Nevada.

There are no sales clerks in the office, but there is a virtual shopping cart on the server.

There is no receptionist, but there is a landing page at the website.

There may be a bank of telephone lines connecting to the server, but don't expect to call home with one of those telephone lines.

Now, imagine that you work as a salesman for this virtual company in Sunnyvale, and you work on a straight commission. Suppose you order something for personal use from the website for which you are a commission only salesman? Would you make a commission from your own purchase?

Let me repeat the question because this is important to understand. As a commission only salesman, can you make a commission by purchasing for your own use?

The answer is YES.

However, that is just a little bit of an improvement.

3. **Lots of a little bit** can make a little bit of a lot. Now, let's make one little change to the above scenario. You are still a commission only salesman, but instead of one company with one warehouse, you are a salesman for over 500 companies with warehouses all over the USA. Suppose those 500 companies sell the kind of items you buy for your household.

What kind of things?

500 companies could stock as much as a million items, so let's keep this concept simple. Suppose we just consider a couple of consumable items like toilet paper and perfume, and a couple of durable items like tires and a computer?

As a commission only salesman, representing 500 companies ...

If you bought toilet paper for you home, would you make a sales commission?
Yes.

If you bought tires for your car, would you get a commission? Yes.

If you bought perfume for your wife's birthday, would you get a commission?
Yes.

If you bought yourself a computer, would you get a commission? Yes.

Would your purchases make a little improvement in your finances or a lot?

Probably just a little.

Here's the important question.

If you just made a small percentage of commission on everything you buy, **would you rather have a small commission or no commission?**

That's the principle of a little improvement.

Last question before we move on to the next item listed by the think tank. Here's the question. If a roll of toilet paper costs you ten cents more than the price in a local store, but you get a ten cent commission, where should you buy the toilet paper? (How you answer that question determines whether you think like an Information Age person or an Industrial Age person.)

4. Secondary economies are resilient and tax advantaged. A secondary economy is sometimes called the "backside of the stock market." This concept

is not taught in Econ 101, and few MBAs understand the concept. Unfortunately for me, but fortunately for you, the concept is more difficult to explain ... than to understand.

In order to test my ability to explain a complex concept, let's continue with the commission salesman example.

If you are a commission salesman, and you train other commission sales men, shouldn't you get a small commission on their commissions?

During a sluggish economy, are not more people looking for ways to augment their income? How many people, who are looking for a way to augment their income, also buy "stuff" for their homes? Suppose all these people who are looking for a way to augment their income were to become commission only salesmen for 500 companies and begin shopping so they can get a commission? How much additional commissions could you make for training people to sell to themselves? Do you think teaching people to sell to themselves would be difficult to do, or easy to do?

How many people, who are looking for a way to augment their income, would be willing to sell products they like, to people they like? What if one of these commission only salesmen sold some tires to his brother-in-law, at a better price than the brother-in-law could get elsewhere? Shouldn't the salesman get a commission? Would the brother-in-law complain about not getting a commission, or would they be happy to get a better price? How much extra commission could you make as a "thank you" from the store who sold the tires because you trained a person to sell something they like, to people they like?

Is not a little bit of a lot of commissions better than a little bit of one commission?

Suppose you are be-bopping along, having a marvelous time training all these commission only sales people when suddenly inflation causes the prices of everything to increase 10% on everything, everywhere? As a commission salesman, wouldn't your commission increase by 10% also? If a person's

income rises in direct and immediate proportion to inflation, does inflation cause them a significant problem?

If inflation does not impact your economy, then you are involved in a secondary economy.

Secondary economies are also tax advantaged.

First, let's consider the similarities between a home owner and a business owner.

People buy their own homes for three reasons: equity, tax advantages, and to a lesser degree, pride of ownership.

People start their own businesses for four reasons: profit, tax advantages, equity, and to a lesser degree, pride of ownership.

As you can see, three of the four reasons why people start their own business, are also why people want to own a home. The primary difference between owning a home and owning a business is the word "profit".

Home ownership has never included the ability to create "profit" ... until now. Until now, profit has always been the domain of the store, not the home owner. So, exactly what is this "profit" that a home owner can tap into? (Just for the record, people who rent can also earn "profit".)

To understand that concept, we have to define the word "rebate". Surely you have filled out one of those rebate forms that come with some products? Remember? You fill out the little card, drop it in the mail box, and a month later a check appears in your mail box?

Since you have probably received money in the form of a rebate, would you answer the following questions?

Is a rebate check earned income or is it business income? Answer: Since no income taxes are deducted from the rebate check, then it has to be business income.

Is business income taxable? Answer: Yes.

If business income is taxable, and you received business income in the form of a rebate, why did you not pay taxes on that income? Answer: Technically, you should. However, unless you earn at least \$600.00 in one year from one source, the IRS is not informed of the unreported income. Also, the IRS considers the typical rebate to be too small to be concerned with tracking. (Isn't the IRS generous?)

However, as soon as you reach the magical \$600.00 a year in rebate income from one source, that source is required by law to inform the IRS that you received the rebates. Whoever paid you that \$600.00 has to send a 1099 income statement to the IRS. A 1099 income statement means you had business income.

Congratulations and welcome to the world of business. The IRS now expects you to pay taxes on that income reported on the 1099 statement. However, before you start reeling off a string of expletives about the parentage of the IRS, consider the following.

Yes, taxes are due on the 1099 income. However, business expenses can be deducted from that income before taxes are calculated on that income. If your business expenses are greater than the income on the 1099 income statement, then you do not owe taxes on that income. Not only that, but if your expenses are \$1,000.00 more than the amount you earned in rebates, then the already taxed income you earned from your job is reduced by that amount. Since you now have paid taxes on \$1,000.00 more than you should have, you get a refund for the difference. If you are in the 50% tax bracket, then you would get a refund check for \$500.00.

So, what kind of things are business expenses? How about computers, cars, cell phones, internet access, lunches and dinners, etc. The typical middle

income family in Silicon Valley has between \$10K and \$20K in expenses which can be converted to business expenses. (Caveat: not everything is 100% deductible as a business expense. Ask to see the IRS pamphlets pertaining to business expenses.)

So, what have you done? You became a commission only salesman for 500 companies. You made a sales commission for buying "stuff" you were going to buy anyway. Because you made over \$600.00 in commissions, you are considered a business. Because you are a business, you can deduct business expenses.

And that's how you can profit from the current sluggish economy, without the cash to invest in plummeting real estate and stocks. Plus, your commissions are directly related to the cost of products so inflation automatically increase your commissions. So, even if the bail out causes double digit inflation, your commissions rise automatically as prices increase.

That think tank is truly marvelous.