The Billionaires' Strategy

By Martin Fridson

History's billionaires didn't build a better mousetrap and wait for the world to beat a path to their door. They improved someone else's mousetrap and then took it to the world.

> ***"... Many determined, hard-working people never achieve their goal of amassing great wealth ... because they don't pursue the key strategy that has created billionaires repeatedly over the years."***

According to folklore, the way to create a spectacular fortune is to build a better mousetrap, then let the world beat a path to your door. However, if you study the individuals who took this advice to originate many of the great ideas in business and technology, you'll be surprised to learn how few struck it rich.

Billionaires have another strategy — and if you look into how history's billionaires created their fortunes, you'll be surprised to discover how few of them invented anything.

For instance, Bill Gates, the wealthiest person in the world, didn't invent the products that made him rich. Microsoft's first successful product, DOS, was derived from a product created by Gary Kildall, a pioneer in the software industry who died at 52 in a barroom brawl and who was well short of the billion-dollar mark in net worth. Microsoft Windows®, in the popular view, was copied from Apple Computer®, but the technology didn't even begin at Apple. Its uniqueness, the Graphical User Interface (GUI) was originated at Xerox®, which never effectively exploited it.

Gates did, however, have one exceptional insight. He understood how to make money from a product. It must have been tempting for Gates to simply sell DOS to IBM for use in its personal computers. At the time, that would have been a big sale for Microsoft. Instead, Gates allowed IBM to use the operating system for a modest sum, recognizing that the real money would be in licensing it to producers of application software.

A similar story can be told about the late Sam Walton, a previous occupant of the top spot on the Forbes 400 list. He actively boasted that his best ideas came from competitors. Wal-Mart wasn't the first discount retailer, yet it became the biggest retailer of *any* kind. One big reason was that


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Walton tirelessly shopped the other chains, with an eye toward copying whatever was working for them.

Others had the idea of the discount retailing format before Walton did. But he was the one who developed the most successful formula for exploiting it. His approach had several components, including concentrating initially in small towns, giving store managers a big ownership stake in their businesses, and betting boldly on new computer technology.

Clearly, the super-wealthy have followed many different paths to achieve their billionaire status, but there are common themes. Determination and hard work characterize all of their successful quests. But many determined, hard-working people never achieve their clearly defined goal of amassing great wealth. And most will continue to fall short because they don't pursue the key strategy that has worked repeatedly over the years.

There is a theme that consistently runs through the billionaires' stories. I call this theme "the billionaires' strategy" which is to:

Gain control of an asset and increase its value.

Take a look at what separates "the world's greatest investor," Warren Buffett, from the would-be masses who invest in the stock market. Buffett does not simply identify stocks that have the potential to rise by more than the market averages. Instead, in many instances, he buys big enough stakes in companies to be able to influence their business strategies. Sometimes, he buys the entire company, and when management heeds his advice, the companies tend to prosper and their stocks tend to rise.

It's true, certain key elements of Buffett's wealth-building techniques can't be implemented unless you already control a large amount of capital. However, Buffett started small too. He didn't try to hit it big by managing his own portfolio. Instead, he formed an investment management business, raising money through acquaintances in Omaha. Before long, he had enough purchasing power to gain control of a small farm implements manufacturer. Buffett then set about streamlining the company's operations. That transaction became a model for many bigger deals that followed and the foundation of Buffett's vast industrial empire.

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Notice that the billionaires' strategy is not the one you hear quoted far more frequently — "Buy low, sell high." Plenty of assets are available at "low" prices for one simple reason: They don't have much value. If no one comes up with a good plan for enhancing a supposedly cheap asset's value, it might get even cheaper. Conversely, buying an asset at a fair, rather than a cheap price, is a good strategy, if the plan for enhancing its value is sufficiently powerful.

How can you tell whether your strategy is valid or not? As a first cut, it's worth considering whether your approach has ever been used by people who have achieved a goal like yours. Mind you, there's nothing inherently wrong with being an innovator. But you reduce the uncertainty dramatically by copying an approach that has frequently worked in the past.

Gaining control of an asset and increasing its value is a strategy with many variations. One method is to acquire an asset that's subject to legal restrictions and bring about a relaxation of the limitations. A simple example is buying a property that's zoned for residential use, then petitioning to have it rezoned for commercial use.

Extending the value of an existing brand name is another formula underlying many great fortunes. If consumers know and trust a brand, that trust may be transferable to a new product category or even an entirely new technology.

Naturally, the fact that a formula has worked before, in a different situation, is no guarantee that it will work in the particular way that you attempt to apply it. Good execution is vital to success. What's more, you may execute well, only to discover that someone else has beaten you to the punch. There's even a danger that an unforeseen change in the technological or regulatory environment will put both you and your rivals out of business almost before you begin. Remember, no one said it would be either easy or risk-free to build wealth as the billionaires do.

On the other hand, the low-risk paths have a very limited upside. If you're working at a job, you face an inherent constraint, even if you're very good at what you do and even if you're working extremely hard. The constraint is that there are only 24 hours in a day and you need some of them for sleeping. So, you continue trading your time for money.

The critical decision that you face is whether your goal is to make a living or to make a killing. If it's the latter, your best shot is to follow a strategy that has worked many times in the past. You'll have to apply the success formula in new circumstances, using some judgment and creativity in the process. But if you gain control of an asset and find a way to enhance its value, you'll be on the road that has most reliably led to a billion-dollar net worth ■

Martin Frisdon is a former Managing Director of Merrill Lynch.

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