

PRINCIPLE 1

ONLY OVERSUBSCRIBED BUSINESSES MAKE A PROFIT

You likely learned long ago that the market forces of demand and supply determine the price and the profit you'll make. But what you didn't learn is that you can make your own market forces.

It's vital that you take control of this sacred balance because unless your business becomes oversubscribed, you're unlikely to realise your full value.

YOU ONLY NEED TWO BIDDERS

I was in a room with 400 people who had come to see renowned entrepreneur and author Gary Vaynerchuk share his ideas on social media marketing. He announced at the end of his presentation that he'd be auctioning off a one-hour, one-on-one business consultation with him, and the proceeds would go to charity.

He explained that the last time he did a consultation like this he had made several introductions to his network and the person had made an additional \$50,000 in less than 30 days. "It's not just a consultation," he explained. "It's potentially access to my network – and I know some of the world's most powerful people."

This had put the audience into a frenzy. I opened the auction with a bid of £500 and immediately another person took it to £600. Within a flash the price hit £1,000 and the hands kept popping up.

Bids were coming in thick and fast. £2,000, £2,200, £2,400, £2,600, £2,800.

As the bidding passed the £3,000 mark, it came down to two men who clearly both wanted this prize. Everyone else was out of the race, but these two guys kept matching each other and taking the price up another £100 each time.

They were the only two people still bidding in a room with 400 individuals. The rest were sitting patiently or enjoying the spectacle.



The price got up to £3,900 with no signs of slowing down. Gary could tell the audience members were getting restless – so he asked the two bidders, “Will you both pay £4,000 each and I will provide a consultation for both of you?”

They agreed, and the hammer went down. Gary had raised £8,000 by auctioning off two hours of his time.

I’m not sure how high it would have gone but I do know that it only takes two people to push up the price at an auction. Most of the people in the room didn’t bid at all and very few people bid beyond £1,500. But that doesn’t matter. When the supply is “one” and there are “two” who want it, then that price keeps going up. Two people who desire something is enough to oversubscribe the one person who has it. The price keeps going up until one entity gives in.

Too many business owners focus on the entire marketplace. They are deeply concerned by what the majority will pay rather than finding the small group of people who really value what they offer. But if you focus on the wider market price, you’ll always be average. In today’s competitive marketplace being average means you’re unlikely to be profitable.

If Gary Vaynerchuk wanted to try and sell everyone in the audience an hour of his time, he would have probably needed to lower his prices to £250 per hour. And after delivering months of back-to-back consultations he would have zero energy to write more books or give more talks.

As it turns out, Gary knew that his real value wasn’t even the consultation time. It was his ability to make a high-level

introduction that would be taken seriously because it came from him.

Your value is much higher than you think to a small number of people. You probably have specialty skills, networks, resources and insights that certain people are eager to access. You don't need everyone on the planet to see you as highly valuable; you only need enough people who can drive your price up. Separating from the economy and from your industry requires that you turn your attention to those people who find you highly valuable – and then serve them better than anyone else can.

If two people want your time and only one can get it, your price rises until one of them gives in. Your job isn't to please everyone. Your job is to find those people who can't live without you. So . . . who are those people? What is it they want? And where *do* you find them? These questions matter more than the questions that relate to the overall market.

Your price isn't fixed or set by the overall market. It's a result of being oversubscribed or not.

Let's begin with some basics that I was taught by one of the world's top market traders.

SOME PEOPLE MISS OUT

“Why do markets go up?”

I was sitting in the home office of one of Australia's most successful stock market traders – a man who had traded

billions of dollars and who'd been consistently trading markets for 20+ years. He was a man for whom people travelled internationally to hear him speak about markets for an hour or two. He was sharing with me core ideas that formed the basis of his trading strategy.

I was 22 years old at the time, and I answered his question with my best guess: "Positive news, a good economy, monetary policy, a good CEO; probably they all have an impact, I think."

"Nice try – but no," he said with a smile, "Markets go up because there are more buyers than sellers – and that's it!"



I had forgotten the fundamental truth of economics: the basics of "demand and supply" that you learn on day one of any economics class. A strong market, a good business plan or a compelling story all help, but ultimately your price is set by the balance of supply and demand.

Businesses like Uber can float on the stock market for over \$80 billion in valuation despite having never made a profit, receiving ample negative press and having had all sorts of issues with the executive team. Despite everything that might happen, when there are more buyers than sellers

the stock price goes up and it falls down when there are more sellers than buyers. After Uber floated, the price dropped by more than 10% in the following few days, not because anything had fundamentally changed about the company; it was simply that there were more sellers than buyers.

It was also Uber that discovered that the same rules can apply to the cost of a taxi fare. Rather than offering fixed fares based on the time of the day, like most cab companies do, Uber was first to “float” the price based on demand and supply. When hundreds of people want a ride and only a few drivers are in the area the algorithms trigger surge pricing and start charging people higher prices. Ordering an Uber home after a concert can cost you 300% more than what it cost you to get an Uber to the venue.

At a basic level, the same principles translate down to how much profit a business makes. The market abhors a profit; a profit is only tolerated if demand is higher than supply. A coffee shop with a line out the door can charge a price that covers all costs as well as a profit margin. An empty coffee shop will start discounting to customers in an effort to minimise the losses it’s taking on rent, staff and utilities.

No one wants your business to be highly profitable other than its stakeholders. If you tell consumers they can have a cheaper price but the company will lose money and might go out of business, they probably won’t even think twice about buying at the lower price. They aren’t worried about your profit margins; they are concerned about their own budgets.

Uber is also a great example of how these principles affect profit; despite billions of revenue it is yet to make a profit because it muscled its way into a highly saturated and mature market offering cheaper prices. Their system allows for more and more people to become drivers so any time the prices rise more drivers take to the streets. By creating such a pure market, there's little chance of making profit.

Contrast this to the previous taxi cab system that limited supply through licensing and qualifications. Prior to Uber, most cab drivers made a respectable living from the profession and felt safe in the knowledge that demand would always slightly outpace supply by design.

You'll only make a profit if you are oversubscribed on your capacity to deliver; demand for your stuff must always be greater than your ability to supply it. It's the tension of high demand and limited supply that creates the opportunity for profit.

Consider the dynamics of a salesperson speaking on the phone to a prospect for the first time. It's a one-to-one interaction – one seller talking to one buyer. By design this method of generating business creates no imbalance or tension and will only ever generate wages.

Alternatively, imagine a speaker on a stage pitching an opportunity to an audience of thousands. There's one of her, surrounded by more than a thousand prospects. There's tension in the air because of the potential imbalance that has been created. If there's a legitimate limitation to supply,

the price will stay firmly high, there will be an avalanche of interest upon her all at once and profit will be tolerated.

People forget the basics. They get caught up in tactics for marketing and lead generation, and they fuss over management styles and team-building techniques, forgetting that all of these activities don't mean much if the business isn't oversubscribed.

Being oversubscribed requires nothing more than a situation whereby some people who really want something have to miss out on having it. Of course, it's a difficult situation because you and your company don't *want* people to miss out. Naturally, you want to sell to everyone who's willing to buy, yet that very mindset prevents you from becoming oversubscribed.

Lots of people who want a Ferrari can't get one – but the people at Ferrari aren't losing sleep over it. They know that the fact that some people have to miss out is what makes their automobile so coveted. Every product that is oversubscribed has people who didn't get it, even though they were *willing* to buy.

In 2014, Facebook purchased mobile messaging app WhatsApp for \$19.3 billion; the figure seemed ridiculously high to almost everyone on Earth at the time – except one other bidder. Google was the other company who wanted to buy WhatsApp and the two rival companies bid the price of the relatively small startup into the stratosphere. At the time, WhatsApp was just five years old, had a team

of less than 100 people and had recently raised funding at a valuation of \$1.5 billion. Fortunately for the founders of WhatsApp it only takes two tenacious bidders for an astronomical valuation to materialise.

If you can get the balance right and keep yourself oversubscribed – disappointing those people who missed out without them losing interest in you entirely, while still delivering remarkable value to those who got through – you'll have no problem being profitable. If supply is too great and everyone who wants what you have can get what you have, the prices will fall and so will the margins. Eventually your business will make losses.

The principles for becoming oversubscribed can be useful across many aspects of your business. For example, if you want to hire top talent, you need to be oversubscribed for top talent. That means that some talented people who would love the job will miss out. If you want impactful publicity, you need to be oversubscribed for people who want the story you have to share, so some news outlets won't get the story. If you want investors, you need to be oversubscribed for funding – more people are ready to put in the money than you require and some of them ultimately miss out.

If you want to be oversubscribed, you'll need to get comfortable with some people missing out on what you have to offer. That's how markets work – and that's how the market determines your rewards.

PROFITS, LOSSES OR WAGES?

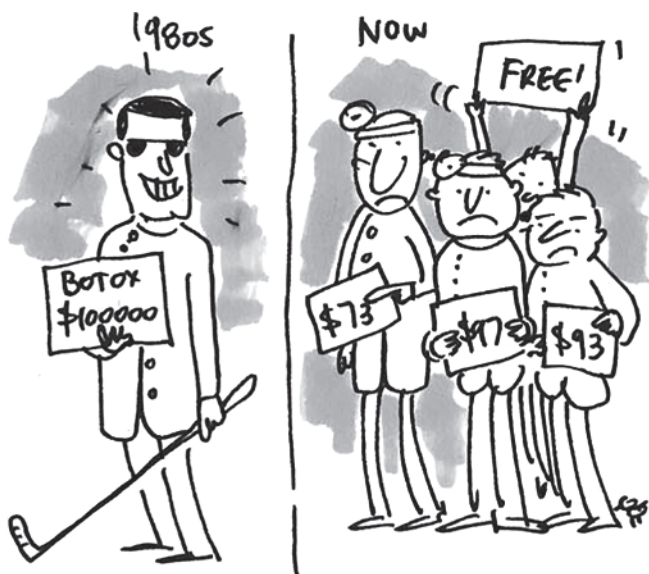
When it comes to the rewards you and your stakeholders will make from business, there are three ways the demand and supply relationship can be set up:

- **Oversubscribed** – Demand outstrips supply, resulting in profit being tolerated on top of normal wages.
- **Balanced** – Demand and supply are relatively even resulting in normal wages being tolerated but not profit.
- **Undersubscribed** – Excess supply is available above demand, resulting in losses.

It doesn't matter what the product is, where the business is based or how dedicated the team members are. The only thing that matters is the relationship between demand and supply. Even when the product stays the same, if that relationship changes, the profitability changes.

In California in the 1980s, millions of people decided that they wanted plastic surgery. The surgeons who could deliver this service were in short supply and they made vast sums of money providing breast enhancements, nose jobs and Botox. Anyone who could perform these operations ended up with a mansion, a yacht, supercars and lucrative investments. They were making millions because the market had vastly more buyers than sellers when it came to plastic surgeons. The cosmetic surgery market at that time tolerated wages *and* profits.

This is no longer the case nowadays. LA is filled with plastic surgeons. Attracted by the vast available wealth, a whole lot of medical students switched their major in the late 1980s and headed for Beverly Hills to make big money. But they discovered upon arriving that they weren't the only ones who had taken this path. By the end of the 1990s the demand and supply relationship returned to a balance, and today most plastic surgeons in LA make a normal surgeon's wage.



The 1980s plastic surgeons made more money than surgeons today because of a trend that happened for a niche within the medical industry. It wasn't the nature of what they were offering that made it profitable; it was the demand-and-supply tension that set the price.

There are cycles in whole industries whereby demand for *anyone* in a chosen field will be highly in demand. This is known as an industry boom, for example, the dot-com boom in the late 1990s, whereby almost any Silicon Valley company could raise millions for little more than an idea.

There are cycles in the economy whereby demand from consumers as a whole outstrips supply from industry as a whole. In these times, everyone seems to be doing well and there's an economic boom for almost everyone, such as what happened in the era known as the Roaring Twenties.

You do not want to be at the whims of the economy or your industry trends. Your ability to earn and profit is far too important to leave to chance, and as you'll see from the principles and strategies we explore in this book, it's possible to be completely independent of your industry or the economy and build a market of your own.

It's possible to play an advanced game in which you are completely in control of the forces of demand and supply that impact on your business. This is when you can become oversubscribed on your own terms, regardless of what's happening for everyone else.

Even in saturated markets, even when competition is fierce or you are up against companies with vast resources, it is still within your power to become oversubscribed and enjoy profits on top of the normal wages of your industry by creating a market of your own.

The forces of demand and supply work the same when customers perceive you as separate from your industry. Even better, you don't need very many people in order to create your own market, become oversubscribed and to maintain a profitable price if you can get a few key things right and create your own fiercely loyal market.

