

The Ideal Business

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[**INTRODUCTION**] – Ambitious, wide-eyed, hard-charging people awaken to their passion every day. They have ever since there was life on earth.

And, in their quest to serve, assist, and provide extra value to the world, they come upon the idea of starting a business, or being an entrepreneur of some type.

And, very well, they should!

Being rewarded mentally, financially and spiritually for your desire to solve a problem or provide solutions is what makes life all the better.

But, what if you don't know if your IDEA has merit? Or, better yet, how do you know you won't be digging yourself into an early grave, by getting involved in a business that owns you?

Richard Russell, publisher of the *Dow Theory Letters* and the unofficial dean of the financial newsletter industry, wondered about those questions too. But not because he, himself, needed a business.

Richard began publishing the *Dow Theory Letters* in 1958, and he has been writing them ever since (in fact, he has never once even skipped a Letter). The Letters, published every three weeks, cover the US stock market, foreign markets, and everything economic. And, Mr. Russell is highly sought after for his economic commentary.

So, it was mainly out of curiosity that Richard asked a friend this question: "In all your years of experience, what was the single best business you've ever come across?"

But, that sparked up his creativity to articulate out at the time, in 1970, what elements the IDEAL business should have.

And what he came up with then is just as relevant today. Enjoy his thoughts below...

AH, PERFECTION: Strange, but the most popular, the most widely-requested, and the most widely quoted piece I've ever written was not about the stock market – it was about business, and specifically about what I call the theoretical “ideal business.” I first published this piece in the early-1970s. I repeated it in Letter 881 and then again in Letter 982.

I've added a few thoughts in each successive edition. But seldom does a month go by when I don't get requests from subscribers or from some publication or corporation to republish “the ideal business.” So here it is again – with a few added comments.

I once asked a friend, a prominent New York corporate lawyer, “Dave, in all your years of experience, what was the single best business you've ever come across?” Without hesitation, Dave answered, “I have a client whose sole business is manufacturing a chemical that is critical in making synthetic rubber. This chemical is used in very small quantities in rubber manufacturing, but it is absolutely essential and can be used in only super-refined form.

“My client is the only one who manufactures this chemical. He therefore owns a virtual monopoly since this chemical is extremely difficult to manufacture and not enough of it is used to warrant another company competing with him. Furthermore, since the rubber companies need only small quantities of this chemical, they don't particularly care what they pay for it – as long as it meets their very demanding specifications.

My client is a millionaire many times over, and his business is the best I've ever come across.” I was fascinated by the lawyer's story, and I never forgot it.

When I was a young man and just out of college my father gave me a few words of advice. Dad had loads of experience; he had been in the paper manufacturing business; he had been assistant to Mr. Sam Bloomingdale (of Bloomingdale's Department store); he had been in construction (he was a civil engineer); and he was also an expert in real estate management.

Here's what my dad told me: “Richard, stay out of the retail business. The hours are too long, and you're dealing with every darn variable under the sun. Stay out of real estate; when hard times arrive, real estate comes to a dead stop and then it collapses.

Furthermore, real estate is illiquid. When the collapse comes, you can't unload. Get into manufacturing; make something people can use. And make something that you can sell to the world. But Richard, my boy, if you're really serious about making money, get into the money business. It's clean, you can use your brains, you can get rid of your inventory and your mistakes in 30 seconds, and your product, money, never goes out of fashion.”

So much for my father's wisdom (which was obviously tainted by the Great Depression). But Dad was a very wise man. For my own part, I've been in a number of businesses – from textile designing to advertising to book publishing to owning a night club to the investment advisory business.

It's said that every business needs (1) a dreamer, (2) a businessman, and (3) a S.O.B. Well, I don't know about number 3, but most successful businesses do have a number 3 or all too often they seem to have a combined number 2 and number 3.

Bill Gates is known as "America's richest man." Bully for Billy. But do you know what Gates' biggest coup was? When Gates was dealing with IBM, Big Blue needed an operating system for their computer. Gates didn't have one, but he knew where to find one. A little outfit in Seattle had one. Gates bought the system for a mere \$50,000 and presented it to IBM. That was the beginning of Microsoft's rise to power.

Lesson: It's not enough to have the product, you have to know and understand your market. Gates didn't have the product, but he knew the market – and he knew where to acquire the product.

Apple had by far the best product in the Mac. But Apple made a monumental mistake. They refused to license ALL PC manufacturers to use the Mac operating system. If they had, Apple today could be Microsoft, and Gates would still be trying to come out with something useful (the fact is Microsoft has been a follower and a great marketer, not an innovator). "Find a need and fill it," runs the old adage. Maybe today they should change that to, "Dream up a need and fill it." That's what has happened in the world of computers. And it will happen again and again.

All right, let's return to that wonderful world of perfection. I spent a lot of time and thought in working up the criteria for what I've termed the IDEAL BUSINESS. Now obviously, the ideal business doesn't exist and probably never will. But if you're about to start a business or join someone else's business or if you want to buy a business, the following list may help you.

The more of these criteria that you can apply to your new business or new job, the better off you'll be.

(1) The ideal business sells the world, rather than a single neighborhood or even a single city or state. In other words, it has an unlimited global market (and today this is more important than ever, since world markets have now opened up to an extent unparalleled in my lifetime). By the way, how many times have you seen a retail store that has been doing well for years – then another bigger and better retail store moves nearby, and it's kaput for the first store.

- (2) The ideal business offers a product which enjoys an “inelastic” demand. Inelastic refers to a product that people need or desire – almost regardless of price.
- (3) The ideal business sells a product which cannot be easily substituted or copied. This means that the product is an original or at least it’s something that can be copyrighted or patented.
- (4) The ideal business has minimal labor requirements (the fewer personnel, the better). Today’s example of this is the much-talked about “virtual corporation.” The virtual corporation may consist of an office with three executives, where literally all manufacturing and services are farmed out to other companies.
- (5) The ideal business enjoys low overhead. It does not need an expensive location; it does not need large amounts of electricity, advertising, legal advice, high-priced employees, large inventory, etc.
- (6) The ideal business does not require big cash outlays or major investments in equipment. In other words, it does not tie up your capital (incidentally, one of the major reasons for new-business failure is under-capitalization).
- (7) The ideal business enjoys cash billings. In other words, it does not tie up your capital with lengthy or complex credit terms.
- (8) The ideal business is relatively free of all kinds of government and industry regulations and strictures (and if you’re now in your own business, you most definitely know what I mean with this one).
- (9) The ideal business is portable or easily moveable. This means that you can take your business (and yourself) anywhere you want – Nevada, Florida, Texas, Washington, S. Dakota (none have state income taxes) or hey, maybe even Monte Carlo or Switzerland or the south of France.
- (10) Here’s a crucial one that’s often overlooked; the ideal business satisfies your intellectual (and often emotional) needs. There’s nothing like being fascinated with what you’re doing. When that happens, you’re not working, you’re having fun.
- (11) The ideal business leaves you with free time. In other words, it doesn’t require your labor and attention 12, 16 or 18 hours a day (my lawyer wife, who leaves the house at 6:30 AM and comes home at 6:30 PM and often later, has been well aware of this one).
- (12) Super-important: the ideal business is one in which your income is not limited by your personal output (lawyers and doctors have this problem). No, in the ideal business you can sell 10,000 customers as easily as you sell one (publishing is an example).

That's it!

If you use this list it may help you cut through a lot of nonsense and hypocrisy and wishes and dreams regarding what you are looking for in life and in your work.

None of us own or work at the ideal business. But it's helpful knowing what we're looking for and dealing with. As a buddy of mine once put it, "I can't lay an egg and I can't cook, but I know what a great omelet looks like and tastes like."

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LWL's NOTE:

**What if you could have a business that doesn't
require you to sell anything?**

**One where there's no recruiting, marketing,
or talking to people?**

Sound far-fetched?

Yeah, we thought so too.

Yet, we're involved in this utopian business every day.

[Here's how to do that same...](#)

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