

Back to the Future

An Interview with Paul Zane Pilzer

Economist and Entrepreneur

by John Milton Fogg

JMF: Paul, tell us a little bit about how you see Network Marketing, how you see it working in our economy.

PZP: There's an excerpt in my book *Unlimited Wealth* that really sums it up, titled, "*Why Retailing in the 1990s May Resemble Retailing in the 1950s.*"

Network Marketing is something I've gotten into a good deal since we last talked. I've gotten to know some of the top people and to see how they work, and it's really amazing how wonderfully these people are doing their business, without really analyzing what they're doing in the big scheme of things. I'm not criticizing that - people who are successful have to focus. But what I've been able to do is what I always do: I stand back and say, "Why do those people do this in their business? What is their function in society?"

I was a developer of shopping malls for 15 years, and I've worked with retail tenants all my life. I started out in a small manufacturing firm and grew to look at traditional retailing from all angles. And I've watched it die. As an economist, unlike an ordinary shopper, I'm always asking, "What is the function of retailing in society?" And what Network Marketing is doing is it's filling the void of the real function that traditional retailers used to do.

“That function is education.....One of Network Marketing major trusts.”

JMF: And that function is...?

PZP: That function is education. The value of education is one of Network Marketing's major thrusts, and that grows out of the fact that retailing is actually composed of two completely distinct functions.

Let's go back before today's retailing; what's the original retailing? The peddler: The peddler went from home to home across America. Picture what he did: The peddler brought the farmer a new plow, a new way of making butter, the new dress that he aspired to buy for his wife after working hard on his farm. The peddler brought the farmer everything - all the new things that didn't exist for that farmer until he came to America and moved to the Midwest.

But what did the peddler really do? Was he just a shipping agent? No, he taught the customer - he'd walk in and say, "Farmer, let me show you this: now you're using this plow, but here's this other plow, and here's what it does." The peddler's real function was education - giving

the customers better tools to improve their business, and teaching them about those tools, or teaching them about new products and services they'd want to buy that were the *raison d'être* for working hard in the first place.

Then the peddler did something else: He carried as much as he could and physically distributed it. And we call that "selling" - but that's a very bad word. It wasn't "selling" - he was teaching. And on the side, because there was no one else to ship, He was the physical distributor as well as the educator.

JMF: Paul, you began by saying that "retailing in the future is gonna look like retailing in the '50s" Now, are you talking 1950's or 1850's?!

PZP: Both. If you look at the history of the Macy's, the Gimbels and all the department stores, they all came from peddlers! So when they set those stores up, they weren't just going to pile the merchandise up and let the customers come in; the whole focus was on teaching the customer about something new that would improve their life.

The department stores helped pull us out of the depression and they kept this economy moving in the '30s and '40s, because they brought out all sorts of new goods and educated us about what they were, what they'd do for us, and how to use them. Imagine seeing one of these early television sets for the first time, or a dishwasher, or a washing machine. Can you picture what these things must have looked like? Could you have walked by a washing machine and know what it does, if you'd never seen one before? Could you walk by a TV and know what it does? No, you'd think it was a radio with a mirror!

All these products and services required massive amounts of education. And the department stores did a terrific job of exactly that. They never really focused on the other distinct retailing function - the physical distribution, which is really a separate business. Physical distribution is more the function of providing people with the products and services that they already know about, that are sort of a routine, like going to the store to get the ketchup, getting the basics. Their focus was on teaching people about new things that would improve their lives. But those two functions were bundled together, because we started out with the peddlers and the department stores who came from peddlers.

Now in the last few decades, people have carved out the distribution part of retailing and developed that separately, without the education function. Walmart. K-Mart. See what they did? They carved out the distribution

part of retailing: Giving customers products and services that they already know about, and just giving it to them a little less expensive and faster. They got so good they took over, and the department stores didn't know what hit them. One or two department stores survived - tell me the names of the one or two leading department stores.

JMF: Nordstrom's.

PZP: Why?

JMF: Service. .. Education. ..

PZP: Education - you walk into Nordstrom's, you don't know what dress you need for that party, they're going to teach you, aren't they? Notice the word "education" is missing, we call it "service." But would you want "service" from a salesperson who didn't know the product at all? Could I "serve" you if I didn't know anything about it? Of course not. What I'm really doing is educating. Bad word, ".service." Bad word, "selling." It's education.

Now we come to Home Depot. Home Depot started in the 1980s by people who owned a hardware store and felt, "Gee, we focus on educating customers, and we can't keep up." So instead of trying to become a better K-Mart or Walmart and distribute cheaper, they said, "Hey, let's go wild on education." In less than ten years their sales were six and a half billion dollars! It's quite an example.

Now, here's where retail is going in the future. Do you know what Procter & Gamble is doing to Walmart in Arkansas? It's a retail revolution. Originally, Walmart hooked up P & G to their computers and told them, "I want you to watch what sells, so you can better supply my stores." Next, they said, "I am not going to physically handle your goods. Deliver them to my store and stock it on my shelves." P & G had no choice, so they did it.

Then Walmart said, "You know what, I'm not going to pay you for inventory any more: you stock it on the shelves, you have daily access to the cash register records, you see what you sell and we'll give you 30-day terms on that." Isn't that incredible?

You see what's happening here? Walmart is effectively saying to P & G, "You deliver it and you keep it until the customer buys it." Now let's take that one step further.

Here's how I see the future homes of America: Every home will have a delivery room - a four-foot-by-four-foot box near your front door, with a one-way glass door from the outside. It has a little refrigerator, it has room for dry cleaning, and the UPS man or the local delivery man with an electronic card, slides in that door and delivers. And everything will go home delivery - everything!

You can see what a major benefit that's going to be to the consumer. All new homes will put in a delivery room like that, and you'll find a way to put it in your existing home - you'll have no choice! Otherwise you'll have to be there when the delivery comes. The store's going to say, "Listen, I'm delivering and if you're not going to be there when I come, I'll charge you."

Now, I don't know who's going to be doing the delivering, if it'll be P & G, or Walmart, or maybe an intermediary service; and there'll probably be quite a battle for that business. But I do know this: This will be a wonderful thing for the customer who knows what he already wants - and that's precisely the point. It'll be a

phenomenal technology for physical distribution - and completely lacking any educational function.

"...the more advanced the technology for delivery and home shopping, the more people need Network Marketing....."
"What's wrong with home shopping? You don't know what you want! When you go to a supermarket, 90 percent of what you're doing is buying the same thing; but don't you always like to see something New?...."

JMF: And that's where Network Marketing comes in?

PZP: That's where we get to Network Marketing. The more advanced the technology for delivery and home shopping, the more people need Network Marketing.

What's wrong with home shopping? You don't know what you want! When you go to a supermarket, 90 percent of what you're doing is buying the same thing; but don't you always like to see something new? Now, notice something about Walmart, versus the normal store: you don't see anything new.

JMF: No, I see the top seller in every category, whether that's what I want or not.

PZP: Yesterday's best sellers. Which is wonderful, because most of what you buy is yesterday's. But do you believe that the speed of new development in products is accelerating?

JMF: Just a bit!

PZP: ... Right, it's a rhetorical question! So where are you gonna find out about what's new?

JMF: I see something on television, or I pick up a magazine...

PZP: Right, and what are these media good for? You're not going to pick up a magazine and buy something you never heard about.

JMF: Well, whether it's a stereo or a portable phone or whatever, I go buy a magazine to learn about that because there's nobody around telling me. It's not on TV, I don't go to the trade shows, the consumer electronic shows or anything else like that, that's about all I've got.

PZP: Right, and that's great for products that are just the same as what you've already learned about. Good for brand switching. But it's not going to be good for new products or services. Again, imagine learning about a dishwasher or washing machine for the first time.

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The reason that Network Marketing is so strong is that

Network Marketing has gone even beyond Home Depot. Network Marketing has evolved into entirely education. It's totally an intangible, isn't it?!

JMF: Say what you mean by that, Paul

PZP: The Network Marketing companies don't have any stores, they don't even try to stock up the goods in a warehouse format, they rely on UPS or other people to distribute, and they're focused entirely on education.

In Network Marketing it used to be, you shipped the goods to someone's home, often in a rural area, and he would distribute them to local distributors. It wasn't really marketing, it was Network Distribution. Network Marketing then evolved very quickly into pure education, completely intangible. It's carved out the essence, or the best part of retailing - educating people about products and services that will improve their lives but that they don't yet know exist - and that's what Network Marketing today is really all about. And that's why we're starting to see it really take off.

JMF: So what Network Marketers have to offer is information that the consumer doesn't otherwise have access to...

PZP: . . . and doesn't have the time to go find. Network Marketers tend to think of Network Marketing from the supply side - "I'm in the Network Marketing business, and these are my products..." But when you look at it from the demand side, from the perspective of the consumer's demand - it's TIME that you're offering.

The person making money today doesn't have much time. They need very quick, fast information that'll save them even more money, and help find new and better ways to spend the money they have earned. They need fast information from people they know - and trust.

Now jump back into the future: Do you see the value of someone you know who specializes in keeping up with what's new - a Network Marketer whom you trust to tell you which products to get?

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JMF: So in the future of Network Marketing, one of the things you see is a dramatic expansion in the number and kinds of products we see?

PZP: Right, massive. In fact, I can see a day where you'll actually be looking for someone to come to your home to speak to you about new products and services. Where it will be obvious that Network Marketing is demand driven - because that will be one of the very best, most convenient and accurate ways for people to get the education they need, right in their homes.

Network Marketing today holds the greatest promise of any marketing innovation for accomplishing this goal of educating consumers about new products and services. It's going to be an extraordinary decade!