

## Chapter 4      The Income Alternatives

We all need to survive - to eat, clothe and shelter ourselves and for most people in the world this requires money.

But, most people want to do more than just eke out an existence.

Most people, depending on the culture in which they find themselves, aspire to a certain ‘lifestyle’ and whatever that is, it usually requires more than a basic subsistence level income.

So where does the money come from?

Robert Kiyosaki suggests in his book ‘**Rich Dad’s Cashflow Quadrant**’ that there are four ways in which people can generate an income.



## E = Employment

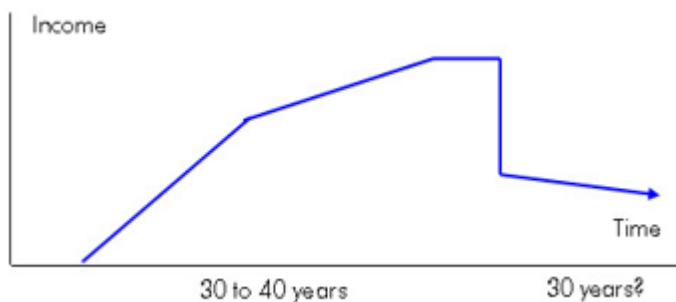
The most common answer is 'E'- being **employed**.

You sell your time, skill and knowledge to an employer in return for your income, but your employer - however 'high up' you are in the organisation, effectively has control of your life.

This is 'Plan A' or 'the world of work' and according to a spokesperson for the National Union of Teachers this is what education is designed to prepare you for.

Even business studies at Masters Degree (MBA) level are presented within the framework of 'employment'.

### This is Plan A -



It's what they teach you at school; it's what most people do.

You get some qualifications; you get a job working for somebody else who pays you for your time and skill.

Eventually they make you redundant or you 'retire'.

You then live on a ‘pension’ which is always less than the income you were receiving when you were ‘working’.

This plan lasts 30 to 40 years and you end up hoping you’ll get enough money to keep you going for another 30 years.

### **But it’s a flawed plan -**

because you might not get a job as soon as you get your qualifications, the job might not last for long, there might be periods when you don’t have a job, and there definitely won’t be enough money in your ‘pension fund’ to keep you going for the rest of your life – so you’ll probably have to get another job.

This is what **most** people do. This is the ‘normal’ way of doing things.

***This is what most people expect is going to happen.***

## **S = Self Employment**

Many people choose ‘S’ and become ‘**self-employed**’.

This is much the same, but you sell your time, skills and knowledge, to your clients (or customers), instead of to an employer.

Yes, you are ‘your own boss’ but really it’s your clients, the people who pay for your services, who have control over your life.

Many self-employed people think they have ‘a business’ and often represent themselves as such.

Some, who sub-contract or work on commission only for various organisations but are not formally ‘employed’, find it hard to get away from the ‘employment’ mentality and may even represent or think of themselves as being ‘employed’ by these organisations.

They are in fact self-employed but are being treated quite often by some organisations as ‘free’ employees. This is not a good path to go down.

Yes, you may have, say, a painting and decorating ‘business’ but if it’s only you, and no work can get done while you’re on holiday, and you don’t get income when no work is done, then, as the definition above clarifies, it isn’t a *business*.

Being self-employed, as the name suggests, is really very little different from being employed - and your boss - you - is usually much more demanding to work for!

Self-employed people often work far more hours than when they were employed and have none of the statutory benefits that being employed brings.

## **I = Investing**

Another way of creating an income is not to sell your time but instead to ‘sell your money’ or to **invest** it in other peoples’ businesses or in speculation on the stock market, rates of exchange, and so on.

This of course means that you have to have some money in the first place. Not necessarily a large amount but enough that you can afford to lose it all if you get it wrong.

Whilst you’re not actually being paid for your time this option does, despite what most people think, take quite a lot of time and skill that you have to develop.

Investing IS however something that you can do with the money your business generates - IF that’s what you want to do and IF it fits with your passion and vision.

In most modern societies most people already have some involvement in this sector by virtue of the ‘pension funds’ to which they subscribe while they are employed.

Employers and employees pay into a fund which is then managed by an investment company on their behalf.

When the employee ‘retires’ the ‘pot’ of money accrued by these monthly investments is made available to the ex-employee in various ways, supposedly to support their lifestyle for the future when they are no longer employed.

Unfortunately, the amount of money available is rarely enough to fulfil this function and often the investment is managed badly resulting in insufficient funds being available at the end of the term.

## **B = Business?**

But what if you had a Business?

The fourth way is 'B' - to **own a business**.

A business is something that you personally own that has a value of its own that doesn't depend on you.

So you can sell it or pass it on as an inheritance.

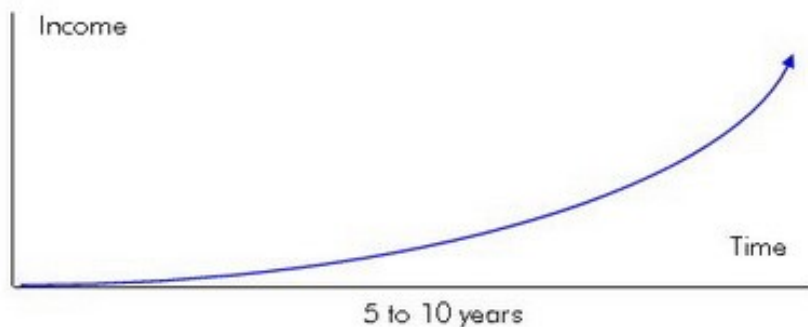
But unless you buy it from someone else a business doesn't start off by generating an income for you, it has to be grown or built first, so in the beginning it can be like being self-employed as you work **IN** your business to build a customer base and an organisation.

Once your business has reached a critical mass you can then spend more time working **ON** the business so that it becomes independent of **you**.

The vast majority of the people on the 'rich list' have got there by building a business.

Think of Lord Sugar and Sir Richard Branson among many others who've 'dropped out' of the 'system' and 'gone it alone' to build their businesses.

## This is Plan B -



As you can see from the graph there is a catch!

**At the beginning there is not much income**, unlike Plan A where the income rises more quickly at the start, so it's a really good idea to find a business model that you can build alongside your 'job' unless you have other money you can live on for a year or so.

Owning a business is what about 2% of the population do, although this is increasing.

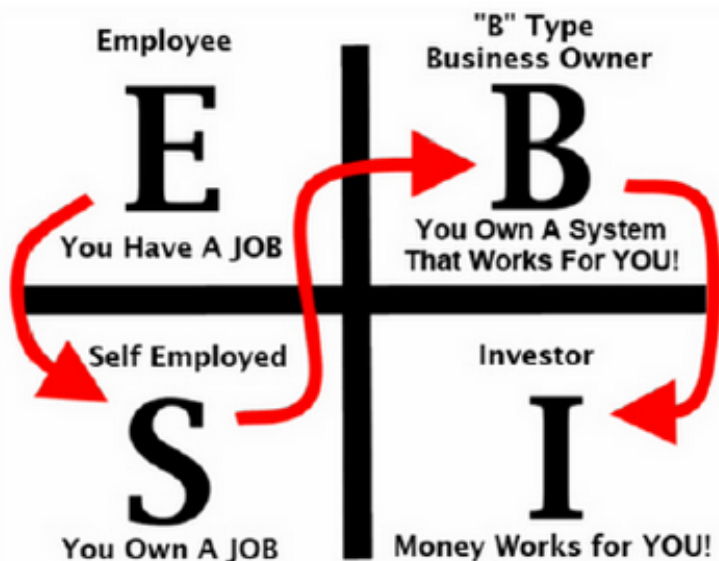
They spend a few years working for themselves part time or full time to build a business which generates an ever increasing income even after they've stopped building it.

You don't have to be particularly 'clever' or have 'qualifications' to do this, in fact some of the UK's best known business owners have 'failed' completely at school, leaving with very few, if any, qualifications and many of them have never had a 'job' working for someone else.

But like all the successful entrepreneurs **you have to spend time at the beginning** putting in a lot of effort without much reward - but after a few years the income takes off and, if you have a business model that works, it will continue to grow by itself.

You can see that there are lots of good reasons to escape from the left hand side of the ESBI quadrant, but it's not quite enough just to want to get out of the employment rat race to start a business just for the money.

But you can progress from one type of income to another, from one state to another. You can be employed and have your own business as well (provided of course that this is consistent with your Conditions of Employment).





You see, as I explained earlier, a business doesn't just start to generate the sort of monthly income you get from being employed from Day 1.

You have to spend time building it up, making people aware of your 'brand', what you do, and why you are 'different' from other, seemingly similar, businesses.

You have to develop the processes you need to put in place to effectively operate the business, not least so that it will carry on generating and growing income in your absence.

But you'll do that *after* 'getting started'.

Don't make the mistake that so many people do of having to have *everything* 'perfect' and 'in place' before they start.

**For a quick recap watch this short video about the real benefits you get from owning your own personal business.**

**[Watch the Video](#)**