seth godin's

STARTUP SCHOOL

an EARWOLF PRODUCTION

A Note from the Editor

On October 1, 2012 Earwolf.com released the first podcast episode of Seth Godin's Startup School eventually releasing a total of 15 episodes. I enjoyed the Startup School podcast so much that I transcribed each episode. I then lightly edited the transcriptions and finally designed this PDF.

I hope you find this as valuable a resource as I have.

-Kevin Evans
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P.S. I have no affiliation with Seth Godin. I just enjoy his work a lot!

PREFACE

Hey it's Seth Godin,

In the summer of 2012 I had an amazing opportunity to spend three days with a group of extremely motivated entrepreneurs—people right at the beginning of building their project / launching their organization. During those three days I took them on a guided tour of some of the questions they were going to have to wrestle with, some of the difficult places they were going through to stand up and say,

> **"This is me. This is what I'm making."**

I'm sorry you couldn't be there, but I hope this is the next best thing. Excerpts from the live event, unrehearsed, no slides. Here it is. Enjoy it. But even more important, I hope you do something with it.

Thanks for ~~listening~~ reading.

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FREELANCER OR ENTREPRENEUR?

An Empty Lot

I want to start by telling you about an architect I just read about and sort of the curse of the successful architect. This guy had made a very good living designing and renovating houses for rich people. His kids grew up, went off to college, and he and his wife decided to move. That's problem number one.

Problem number two is they bought an empty lot.

So now the architect has to go and build his house. He has to build his house without being able to complain about anything because it's an empty lot.

Most of the time I talk with people, who because of circumstances of their job, boss, or wherever they are working, have all these other things they have to be concerned about. They don't have an empty lot. And each of you has an empty lot. That's number one.

Number two is lots of people have the ability to get to the point where they could invent the next thing they're going to do, but they find excuses. By coming here today you've indicated you're past that.

So we're going to spend the first part of this session assuming you are all in, assuming we don't have to deal with the stuff that undermines our best work.

Then as the days go on and we get better at talking to each other and trusting each other about where we are, we're going to dig to the next level of, "If you see it, is it possible you're going to do it?"

Getting Hit

I want to start by telling a story I've only told once before in this room a couple months ago.

I grew up in buffalo and was really bad at ice hockey growing up. In Buffalo there is no baseball, there might be bowling, but mostly it's ice hockey.

When I was 10, my parents sat me down. The word "nerd" wasn't in common parlance and they said, "You can be whatever that thing is, but you also have to at least play a sport for a while."

My dad agreed to coach the team just to make sure I would actually do this. He was a great hockey coach. He had all these drills. He came up with all these inventions. Every other coach had two pucks. My dad had thirty pucks so there was never a shortage. He drilled a hole in the pucks and they all had a shoe lacing so you could carry 30 pucks at once and stuff like that.

Anyway, he invented this drill where the puck is over here and that's the corner. They call it the corner, but it's sort of round. One player would be here and one player would be here. The coach would throw the puck in the corner and this guy would have to skate and grab the puck and go this way and this guy would have to go that way. What we were supposed to do is go as fast as you can and hit the other guy and stuff. So you can imagine the fireworks that would ensue.

I was the smartest person on the team. I was the worst person on the team, but I was the smartest person on the team. It didn't take me very long, this was when I was like 13, to realize the second guy has this huge advantage because the second guy is the hitter and not the hitee. The second guy has a shot at taking the puck away.

What I started doing was being a little slower than the other guy. And it took about 20 times of this drill for the other players to realize what I was doing. They started being slower than me. It got up to Zeno's paradox like, "Who would go slower?" So my dad said I couldn't do that anymore.

What I realized was there are three things you need to be good at hockey.

One is it helps if you know what to do.

The second it helps if you're able to do it.

Third it's really important you care enough to get hit.

And the journey that each of you are on is about those three things.

Do you understand from 10,000 feet what the smartest consultants and visionaries in the industry would tell you is the right answer?

Are you good enough at writing, presenting, organizing, leading, hiring, raising money, and all those things to actually do the right thing?

The third part is, which were not going to dwell on too much this morning, do you care enough about the project to get hit? Because there is a lot of that in what's going on.

When I was starting out, I really wished I could have come to something like this, which is why I run them.

And the problem is you can't talk to your spouse. You can't talk to your board of directors. You can't talk to your employees. You're left alone. And here you can talk to the other folks.

Are You Ready To Do Something with the Duck?

Ok, the duck. The first thing about the duck is there are a lot of people who spend their time getting all their ducks in a row. That is not what we are going to spend our time on.

We're going to spend our time talking about what you're going to do now that you got a duck. That is what attracts me to entrepreneurship.

If you want to be a neurosurgeon, you spend 15 years of your life getting your ducks in a row and then one day someone says, "Now you're a neurosurgeon."

But if you're an entrepreneur, you're an entrepreneur. Immediately. There's no permitting process. There are no certificates. You just start.

Along the way you can collect more ducks and get them in a row, but the real art of what we are trying to do here is understand that you have to do something with the duck.

We're going to keep going back again and again not to the lack of resources, because there are unlimited amount of resources available to all you, not to the lack of opportunities or connections you made, but the real question on the table is:

"Are you ready to do something with the duck?"

Building a Monopoly

We're going to start by talking about why the Monopoly man was on the door when you walked in and why the Monopoly man isn't on the water bottles or the coffee mugs.

So over here I have almost every Monopoly iteration ever made including the 1935 first edition of Monopoly. The original one doesn't seem to come with the board and I'm trying to figure out how they played. Maybe it was the depression so you had to draw your board or something and it was a little picture. It was not clear.

We're going to talk about monopoly for a couple reasons to get us started.

The first reason is there are three ways to think about Monopoly and there are ways to think about architecture and how architecture fits the blank slate you have to deal with. So here they are.

One, there is the evil kind of AT&T / Microsoft kind of monopoly where someone goes and violates whatever tenants of anti-trust laws there are and unfairly controls the market. We're not talking about that at all. There are two other kinds of monopolies.

The kind of monopoly we're going to talk about the most is this: the reason you can't put the little man from Monopoly on a water bottle is Hasbro won't let you. Their lawyers are so aggressive that they have notified every person who prints coffee mugs and water bottles. If you send them the Monopoly man, which I've tried to do, they will send you a note back saying, "We will not print the little Monopoly man."

What that means is they have a monopoly on Monopoly. If you want Monopoly, you have to buy Monopoly from them.

Every successful business has a monopoly—a monopoly on what it makes that someone else can't make the way they make it.

That leaves out commodity businesses—people who bring coal out of the ground. I don't think of those businesses as particularly successful. I think of them as useful. I'm glad if I need a bag of coal someone's doing it, but it's a really lousy way to make a living.

Brilliant entrepreneurship is around figuring out that thing you can do in the marketplace that people are willing to cross the street to get. It's so people understand, "This is the one and I need it."

And we're going to keep coming back again, again, and again today to this idea of, "What is it you're going to have a monopoly on?"

If you know about the company 37 Signals in Chicago, they are really killing Microsoft in a tiny segment of the market, which is project management on the web. They have a product called Basecamp, which cost $20 bucks a month to use. If four of your colleagues are managing a project on Basecamp and you want to participate in the project you can't shop around. They have a monopoly on that project. You have to do it on Basecamp. And you don't get to say, "Well it cost too much money" because they're already using it. So you have to use it too.

That is a fundamental distinction from the way industrialist thought in 1930 and in 1940 when the board game came out. In those days the thought was, "We're going to figure out how to make these machines work just a little better and we're going to figure out to make this factory work just a little faster, and so we'll be able to sell a car just a little cheaper."

The industrial mindset, the one we all grew up with, starts with this idea that you have to build a better mousetrap and make it cheaper.

That's not the kind of entrepreneurship I'm here to propose to you today. I'm not talking about one that is based on the industrial economy, but on the connection economy.

And one of the easiest ways to build a monopoly, a tiny profitable monopoly, is to be the center of connections. Because connections are so valuable to people compared to stuff.

> **We went through eighty years of stuff and now the door is wide open for people who want to make connection for a living.**

The third reason we're going to talk about monopoly is this: if you have a choice between building a house on the blues or the greens, it's a tricky decision because the greens charge way more rent if you land on them. But the blues are way cheaper to build. And these are the decisions you're going to make all the time.

You get to decide where to build your house.

You get to decide if your house has good drainage, a good view, and is near the ocean.

You get to decide how much you're going to spend on the real estate where your house is.

And once you do you're locked into it. You can't complain that you're in a lousy neighborhood. *You put it in a lousy neighborhood.*

When someone tells me, "I'm a literary agent, blah blah blah. The book business is dying," I say, "Well you don't have to be a literary agent. It's not my fault the book business is dying, but if it is, *move.*" Or if it's not, if there's a lot of real estate up for sale because people are panicking, buy a bunch of it.

The virtual real estate that's available in every single industry is a choice.

You may have 15 years of experience being in the pizza business, but if every one in your town is going gluten free and vegan, it doesn't matter, it's a sunk cost.

Freelancer of Entrepreneur?

You're going to decide, "Should I be a freelancer or an entrepreneur?" Let's get that out of the way early on because the distinctions between the two are so critical.

Sarah is mostly a freelancer. What that means is people pay her money and she does work. If she doesn't do work, people don't pay her money.

Freelancing is a great way to make a living. It's what I do, it's what I use to do, but in-between I was an entrepreneur.

Entrepreneurs build businesses bigger than themselves.

Oracle will be fine if Larry Ellison goes on his yacht for four weeks. Oracle is still being Oracle. People don't use Oracle software because Larry Ellison comes with it. He makes money while he sleeps. He's building something bigger than himself that he could sell one day or take public one day if he chooses.

When you use the word entrepreneur, you might be mistaking what you're doing and actually you're a freelancer.

This is the reason why the distinction is so important:

If you’re a freelancer and business is going well, you’re tempted to hire people to do more of the work. Because you say to yourself, “Wow this is great, I get $200 an hour for this graphic design work. I’m going to hire someone for $80 an hour to do graphic design work, keeping $120. And as I add more employees I’m starting to act like an entrepreneur.”

This is all well and good except the cheapest person who you can hire is you. So when in doubt you hire yourself. This is a problem because you just hired yourself to do the work and there is no one left to get you new clients. Now there is no one left to figure out the strategy. Now there is no one left to raise money. Now there is no one left to build new offices.

What you end up doing is having a nervous breakdown because as business slows down you do more of the work. Instead of hiring someone for $80 an hour, you hire yourself for $0. Well great, you’re so busy doing that, just barely breaking even, your business can’t grow anymore and you’re neither a freelancer nor an entrepreneur.

The first thing Mark Zuckerburg has to do if he’s serious about Facebook is to stop coding. There are people he can hire to code so he doesn’t have to do it anymore so he can go off and do the thing only the CEO can do.

When you’re a bootstrapper, when you’re starting with no money, of course you’re going to hire yourself.

> **The discipline of being an entrepreneur is saying, “How do I make it so every person that works for me is better at their job than I am?”**

“How do I make it so I have no job other than breaking the system? Because that’s my only job.”

Everyone else has their job and when you think of the world that way—when you think of Howard Schultz and Starbucks, when you open up a Starbucks or any coffee shop, it’s mom and pop. Mom and pop both work there and it’s working really well, so they open a second one. Mom is over here in the first coffee shop and pop is over here in the second coffee shop. Where you get into trouble is when you open a third coffee shop because there is no one to run the third coffee shop.

Howard Schultz got to Starbucks when there were five. Starbucks was in really big trouble because they didn’t have a scalable model. They couldn’t go from five to fifty because you couldn’t guarantee that there was this cookie cutter, industrial way to grow more Starbucks.

What Howard Schultz did that was brilliant had nothing to do with his ability to make coffee. It had to do with his understanding that his job as an entrepreneur is to build a system that could scale. That's what investors hire entrepreneurs to do—to scale.

But to be a freelancer or impresario, someone who does the work, but doesn't build the organization is totally great. I spend 80% of my time being a freelancer. If it has my name on it, I wrote it. I spend 20% of my time running an internet company as an entrepreneur, meaning not only don't I code, I don't remember how to code, and every time I call one of the seven people who work at Squidoo, I am hurting our productivity because I am bothering someone who is actually doing a good job as I work to break the company.

Q: Break the company?

If you have three pizza shops and they are all working, you have a choice. You can just keep them working and go to the south of France and they'll mail you a $1,000 a week because you own the business.

Or you can say, "For me to get from 3 to 30, I'm going to have to do something that might not work. So I'm going to have to take all the money and put it into advertising or Groupon coupons or I am going to have to put a new menu in that breaks what was working and maybe makes it better, but maybe doesn't."

And you are the only person who has the authority to do that. You don't want the guy behind the pizza counter coming in with a giant bag of raisins and making raisin pizza just because it's fun.

As you're structuring this business to grow, your job is to figure out where it goes.

Q: You can't totally leave the business alone. You need to know that things are working. Derek Sivers wrote about how he left things alone to such a degree that the employees paid themselves 100% of the profits amongst other things.

So the thought is you can't totally leave the business alone. Well the question is, "Where is Thomas Edison when we need him?" He's long gone, but GE persists.

One of the myths we tell ourselves as an entrepreneur is it can't run without us.

Derek's only mistake was not hiring a COO or President he could trust. What he said to the organization was, "Use your best judgment. I'm not going to look at what you're doing." And he trusted people who weren't trust worthy.

What he could have done, what happens all the time, is the founder says, "I have built a process. The process scales."

If you ever bought Mrs. Fields' cookies, Mrs. Fields doesn't touch the cookie anymore. She's not checking on anything anymore. There is a process in place. This is the industrialization of your original idea.

I'm not saying that is everyone's goal. I don't want to do that. But that is the model of classic entrepreneurship—you build an industrial thing and it scales.

Q: One definition that I like about a business is, you could leave it for a year and when you came back it would be bigger and more profitable than when you left.

Right, because you have this organic thing. You plant a whole bunch of Kudzu, you come back a year later and it has grown.

We're going to talk about lots of flavors of different businesses. So I don't want you to think this is what I'm saying *has* to happen. I'm just describing these arcs.

Businesses and Marketing

Let's talk about what a business is and what marketing is and why they are connected.

What you do if your running an organization is you're creating value. What that means is people are giving you money because they think what you're doing is worth more than it costs.

If you're running a non-profit and someone donates $100,000 to the Acumen Fund, they're donating $100,000 because they think it's worth $200,000 for the privilege of donating $100,000. If you realize that's what's going on, you understand that you almost have an obligation to make this available to people because they're the ones who are benefiting from buying from you. And if they are not, you need to make something better.

If someone wants you to buy some old big compact computer with a handle on it that weighs 1,800 pounds and it's $500, none of us are going to buy it unless we're some sorts of perverse collector. It's not worth $500. If you're out there constantly bothering people and using every marketing technique you can think to push this on people and they don't want to buy it, something is broken in the system that you've put together.

On the other hand, when there is a line out the door at Grand Central Station to buy coffee, something is going on here. The coffee is $4. That's expensive, *if you live in Duluth*. But if you're in Grand Central Station and you need caffeine, $4 is a bargain; it's worth $6. Basically there is someone behind the counter handing out $2 bills all day long. Because you're getting something for $4 that you'd be willing to pay $6 for. How did they do that?

They have a monopoly on a brand name.

They have a monopoly on a story.

They have a monopoly on expectations.

And thanks to the MTA, they have a monopoly on that actual piece of real estate. There isn't a place right next door that sells coffee for $3. If there were, there'd probably be more of a line in front of that one

What they've done so brilliantly is they've carved out attention and a system so they get paid all day long giving value to people.

So what is marketing?

> **All marketing is telling a story about that value that resonates with people enough that they want to give you money. That's it.**

One of things you need to do as an entrepreneur starting out is figure out:

How do you tell the story?

Who do you tell the story to?

How do you create this value?

If you can do those three things over and over again, you win.

ADJUSTING THE COURSE

The connection economy is a bigger deal in terms of the economic history of the world than the industrial revolution.

If we were having this conference in 1918, and I was sitting here, had the guy from Scientific Tale or Scientific Management over here, Henry Ford talking about mass production over there, and I was describing how you could use the techniques of mass production, mass marketing, and industrialization to make a business, it would seem just as hard. There were 2,300 car companies in 1918. And so there is all this stuff that is going on.

I'm not promising you're going to build a business that is going to make one million dollars in a year. I think that's unlikely. What I am promising is you can have a business plan that lets you see a path to probably succeeding more than not.

> **The hart part isn't going to be defining the path.**
>
> **The hard part is going to be doing the scary thing to stick to the path.**

The reason everyone doesn't do this is because it's really frightening and you get very little support from the people around you to do this very difficult scary work of putting yourself out there and saying, "Hi this is me, I made this."

If you make it and people don't see the value, you don't give up, you remake it.

Zig Ziglar, one of my heroes, tells this story of a plane taking off from New York headed to Dallas. Five minutes into the flight it's windy so they're off course. The plane doesn't turn around in New York and start over. It just adjusts its course and keeps adjusting its course until it gets to Dallas.

If you're going to buy into the life of making it either as a bootstrapped or funded entrepreneur or a freelancer, you're going to have all these things that don't work.

I got 900 rejection letters in a row my first year in the book business. I didn't sell one thing. You just adjust and you learn from it.

The number of places we need you—the number of places you can add value—is so huge that it's a pretty safe bet that along the way you're going to get to Dallas.

Q: Are you saying that we should make a decision as soon as possible whether we are entrepreneurs or freelancers?

Yes, by tomorrow for sure. This is the biggest source of unhappiness for people who start their own business. They're not being clear on the difference and not willing to commit to one or the other.

Q: I am slightly confused as to what consulting is because it seems like that's the misstep of freelancing and entrepreneurship, running around in circles, pretending some sort of product leaves the office.

When you say consulting, do you mean like what McKinsey does consulting? Bane and getting hired for $300 an hour to tell someone how to do a better job?

Consultants are always freelancers. There are a few who pretend they are entrepreneurs because they built some proprietary database: Arthur Anderson with their 2,000 people on the street.

What will happen is Coca Cola will decide they want to switch from a matrix organization to a direct reports organization. They have 25,000 employees. "What should we do?" They hire Arthur Anderson. Arthur Anderson sends 100 recent college grads that parachute in. They do all these interviews. They're consultants.

The thing is the return on equity at Arthur Anderson is pretty low. They only grow by being basically a temporary employment agency marking up the people who work for them.

Real entrepreneurship again is, if the geniuses who work there took two weeks off, would the business keep running? No, because the people who hire Arthur Anderson are paying for the genius to come in and see them and they are paying by the hour.

If you are a consultant, the easy hard part is, "Are you smart enough to give good advice?"

The *hard hard* part is, "Do people trust you enough to pay you to give them good advice?"

So what happens if you work for McKinsey is you go to Harvard graduate school and you go to McKinsey. McKinsey bills you out at $900-$1,200 an hour. You say, "Wow, that's amazing because I work 2,000 hours a year; 2,000 times 1,000, that's $2 million. I'm going to quit and go be me, same advice, without the McKinsey name."

And what those people discover every time is they can't charge $1,000 an hour anymore. Because what you're buying when you buy McKinsey is the fact that you can go to your board of directors and say, "I want to close the plant in Georgia. McKinsey said it was a good idea."

People believing the advice is good are what consultants usually sell.

There is a second model though, which says, "I'll give you advice and if it works, then you pay me." "I'll give you advice and I'm a stock broker and I hedge fund, and I'm going to keep part of the profit." That starts to shift and now your not so much a consultant as you are a risk partner with somebody else. And that can truly scale in terms of what you're doing.

Scaling back to what we heard a little bit earlier, we're going to keep coming back again and again to what kind of dent are your trying to make in the universe?

Are you trying to make the dent in the universe that you make a decent living doing what you love? *Or…*

Are you trying to make a dent in the universe by saying, "There are now non-profits in my town that are extremely well funded because I made a disruption in the universe to make that happen."

There is no right answer to this. But you have to be honest with yourself about how big a ruckus you are trying to make and why you are making that ruckus.

When its not working and when it's hard, you're going to keep coming back to: "Why am I doing this again?" And if there is a mismatch, you're going to flee.

Here's what we have to understand. And we made it a whole hour before I brought up the Lizard Brain.

You can be the smartest, best educated business person in the world, but if the voice in the back of your head helps push you to avoid opportunities, its not going to do you any good.

As we go through these questions, you're going to hear a question and part of you is going to know the right answer and part of you is going to say, "Ehhhh, I want to do this answer."

I need to highlight for you when that is happening. You need to be really clear with yourself about why you're avoiding it.

A $40 Billion Dollar T-Shirt

It's 1998, the Internet bubble is really starting to get rolling. Why do some people go and start an Internet company and why do some people who know just as much don't?

It's not about the external information, it's about what are you telling yourself, and what are you afraid of.

My story on this is I have a t-shirt that was worth about forty billion dollars.

In the '80s I did a job called book packaging. What book packagers do is we think of an idea for a book and we sell it to a publisher. If they like it we have to make it. It's like being a movie producer, but for books.

I did 120 books—10 books a year, for 12 years. I sold millions of copies. Some you may have heard of, some bestsellers, and a lot of books you never heard of: books on spot and stain removal, books on gardening, a lot of business books. Some have my name, some don't.

I also knew a bunch about the Internet because my background was working at Prodigy, a computer software company. Being a freelancer, magazines were calling me up to write articles about the Internet. To make ends meat, I would stop being CEO of this company with 10 employees and hire myself to write a magazine article for $2,000.

I wrote one of the very first cover stories about what this web thing was. Here it is 1992 and I have a high-speed connection to the Internet. I'm writing articles about what is on the Internet and seeing it start I say, "What should I do?"

I say, "I know, I'll write a book called Best of the Net."

Everything I had was a hammer and that looked like a nail. I sold it to a book publisher for $80,000.

I hired three people and we worked for a year to put together this big thick book of 250 cool things you could find on the Internet. There was no World Wide Web yet.

This was the Internet. This was before the World Wide Web. So with all of this stuff going on, I wrote a book for $80,000.

And on the T-shirt was this guy on the front that we made for the sales force. On the front it said, "Best of the Net" and on the back it said, "World Wide Internet Surfing Team." I gave a copy of the book to every single person on the sales force so they would sell a lot.

The book didn't sell.

At exactly the same time with less money than I had, two guys at Stanford, David and Jerry, started something called Yahoo.

> **They saw the Internet and built a search engine. I saw the Internet and wrote a 200-page book.**

Their company at one point was worth $80 billion dollars so I figure I would have had half of it. So my t-shirt is a forty billion dollar t-shirt. And I keep it right by my desk because it's really obvious to me why I didn't start a search engine because I'm not the kind of guy who starts a search engine.

I'm the kind of guy who writes a book about what's on the Internet and that's why today is such an interesting day. Because you guys all just bought an acre of beachfront property and you can build whatever kind of house you want on it and if you want to build a book, go ahead, but don't whine later that it's worth $80 billion dollars and you don't own any of it.

That fork in the road ought to become clear as we go through these questions.

Charting a Course

Question #1 about your business—and what I want you to do as I go through these questions is to feel free writing them down or just think hard about them. But I think in this case writing something down will force you to be a little more honest.

Question #1: Who is it for?

Nothing is for everyone. Nothing. The vast majority of people in the world have never had a cup of Starbucks coffee.

The vast majority of people who have a phone never used an iPhone.

The vast majority of people in India do not have indoor plumbing.

Nothing you brought here is for everyone. If you think it's for everyone, you have to start over.

Question #2: this group that it's for, has subgroups in it. And what I want to know about any given subgroup (you can start with a big one) is what do they believe?

Let me give you a very specific example of what I am talking about when I talk about worldview.

Lots of people who live in this part of the world wake up in the morning and say, "What a beautiful day, I'm going to go to the store and buy something" and they don't know what they are going to buy before they go to the store. We call this shopping. They're looking forward to going shopping and they believe, they would never use these exact words, that shopping is an enjoyable activity—that going to the store isn't stressful, it's fun.

There are other people in the world, more of them, who have never once in their life bought something their family has never bought before. Never once. And if they have to buy something it's one of the most stressful things in their life because it's a matter of life or death. If you make $3 a day and you have to go buy something, maybe a pair of glasses, and you're wrong and the $3, $4, or $5 you spend is wasted, your kid might die. So that person's worldview is not, "Let's go shopping!" That person's worldview is, "Please, please, please, lets make sure everything is the same."

When we think of worldviews of smaller groups, there is a group of people who in three weeks when Apple launches its new product will buy it that day because it makes them happy.

There is a different group of people that will buy it four weeks later because waiting four weeks makes them feel smart.

And there is a different group of people that will wait at least six months before they buy it because they are smarter than the other two groups of people.

These are stories we tell ourselves.

In 12 weeks there are going to be presidential debates. Two people will watch the debates and one of them will have exactly the wrong impression of what just happened. The other person is sure they heard the right thing, but the second person heard something completely different. Not because of what was on TV, but because of the stories we tell ourselves.

If you think about the product or service you are offering and the group or subgroup you are offering it to, what's the story they are telling themselves?

If we look at Chris' shoes, he is wearing hand made sneakers for barefoot runners. *[How many of you have ever heard of barefoot running, raise your hand. How many of you have ever done barefoot running? How many of you keep doing barefoot running. So we're down to one.]*

It's not that barefoot running is better or worse for everyone here—we can have that conversation. It's interesting that Yoni is the kind of person who tells himself the story about a new technology of working out. Chris is the kind of person who likes wearing something that says something about him while he's wearing it on his feet. And most of us are old enough where we're like, "Uh. I can't learn a new way to run. That's like completely outside my comfort zone."

These are worldviews. They are not right or not wrong. They're just true. So, we have to be very clear when we talk to each other about, "Who is this for?"

Christina sells web design, html, graphics, architecture underneath, apps, and things. If she is trying to get a new client, sometimes she can call on someone and they're eager to hear from the new sparkly cutting edge designer. "Come on in, let's start white boarding it."

And other people she calls on, their arms are folded. She represents a threat at seven different levels. You can beat yourself up that you did a bad job at the second meeting or you can realize it's not for them and go call on someone who it is for.

Question #3, this group that we're imagining, or this subgroup, have they ever spent cash money to buy something like this before?

If you're trying to sell to virgins, it's a lot more difficult than it is to go to someone who regularly buys.

A simple example is someone who sells mattresses for a living.

There are two kinds of people in the world. People who only buy a mattress when they have no choice and people who buy a mattress because they think it will help them sleep better. They buy mattresses five to ten times in their lives.

If it’s the second kind of person, selling them a mattress is much, much easier than selling a mattress to someone who thinks they should never have to buy a mattress.

I need to clarify two things.

One, there are three different kinds of revenue I am talking about: the revenue of cash, the revenue of attention and trust, and the revenue of referral.

There are lots of businesses that need the revenue of attention and trust, like “I’m going to watch channel 4 tonight.” You’re not paying them in cash, but you’re giving them attention and trust which they can figure out how to make money.

There are different flavors of that and we’re going to go deeper into all of them as we go into this. Different ways of people paying.

Question #4: does this group, this core group, this group we know their worldview, the group we know it’s for—do they know about you? Do they know you exist?

There is a huge gulf from selling to people who know about you and selling to people who have never heard of you.

These people who are aware of you, do they trust you?

Now this is huge. So Yoni lives in Toronto and is able to bump into a fair number of wealthy or semi-wealthy Canadians and he knows people who can introduce him to wealthy or semi-wealthy Canadians. Getting himself to be heard of is not impossible. You can cold call people. You can send them letters in the mail. You can have a cocktail party. But do they trust you?

Is that group of people then going to pick up the phone of their own volition and say, “I’m changing my will, can we have a meeting so I can hire you to figure out how to solve this problem.”

There’s this big gap between someone being aware of you, which is really hard, and then someone trusting you enough to invest you or buy from you.

If you go to Christina’s website and you dig in, there’s some real chops there. She and her husband make interesting good software. But she only has three seconds on the website to persuade us of that if we’re strangers.

On the other hand, if I meet her at a conference, see her do a demo, and she’s up on the stage getting a big ovation at the end and my boss comes to me the next day and says, “What are we going to do Seth, we need blah blah blah.” I’m going to remember I met Christina. I don’t need her website at this point because I already trust her for a different reason.

As I keep talking to you about your businesses, we're going to keep taking this apart. How did a stranger know to do business with you and did they trust you?

Keep writing this down and I'll put you on the spot as we go.

These people that are paying, are they paying with money or trust/attention or referral? Are they paying with their own money because they are a consumer or are they paying with their boss's money because they are a business?

How many of you would like to sell to businesses as opposed to consumers? Ok, about a third, that's usual.

I always use consumer examples, because we all are consumers, but I believe they are the same. I think a business purchase is the same as a consumer purchase except, this is the big except: one, they're using someone else's money and two, they're not tying to please themselves, they're trying to please their boss.

> **The question the business purchaser asks is not, "Will this improve my profitability?" They only ask that if they are the president. They ask, "Will this make my boss happy?"**

So Terry and Kate used to work for ICM, which is a fairly famous agency—literary, movies, etc. Why does an author, screenwriter, or someone else hire ICM to represent themselves instead of just some guys with a food cart?

Part of the reason is they believe that when it's a meeting at Warner Brothers, the person being sold to will be more likely to spend money because he can tell his boss he bought it from ICM or he bought it from Vicki Irvin or Stuart Krichevsky as opposed to, "I bought it from Cheryl, you never heard of her." That *story* they tell their boss when they're buying something from you is actually what they're buying.

Is this starting to fit into place?

Business Models and Impresarios

Now we're going to step sideways. In the connection economy, we have to think about the value your business creates, and there are a lot of business models.

[There is a book that goes into extraordinary detail about how business models are constructed. The book's called Business Model Generation and they did a really thoughtful job on it. There's also an iPad app.]

The industrial model of value creation is: Here. It's a widget. You should buy it from me. This widget is the Logitec USB remote and it's $29.

If it’s worth $30 to you, you should buy it because it’s only $29 and that’s it. That’s the interaction. A company made a product, offered it to you, probably with a middleman like Amazon, Wallmart, or whatever, you bought it, end of discussion.

There are many new businesses though in the connection economy that exists to connect one person to another person. That’s a fundamentally different thing.

If you go to use Facebook, you’re using it not because you want to hear from Mark Zuckerberg, not because you want to hear from their advertisers; that’s a tax you pay. You’re using it so Chris and Sarah can connect. One person to another.

And we’re going to talk a little bit about this idea of impresarios—what it is to put on a show and create a place or venue where people can interact. What we see over and over again is those are extremely powerful, seductive, profitable businesses because that’s what’s missing.

People are lonely.

People are lonely in business settings and they are lonely in personal settings.

If you run a trade show for the right people, they’re not coming to hear from you. They’re coming to hear from each other and building those connections becomes really powerful.

Or are you connecting one customer to what you make?

Or are you trying to connect one kind of customer to another kind of customer?

This is Google.

Google says, if you are a person, a human being, come here to find stuff on the Internet. And they if you are an advertiser, if you want to reach human beings, come here to reach human beings. And both sides are happy with the deal.

Lots of people go to Google and click on the ads and lots of people run ads on Google so people will click on them. What Google has created is a bridge between one kind of customer, the surfer, and the other kind of customer, the kind that wants to be surfed.

One could imagine being a broker between philanthropists and charities. You could say to philanthropists, “I’m only going to represent a dozen of you. You need someone you trust to be a middleman. I’m going to take care of the 12 of you. You will get to meet each other and I will hand pick the charities who want to come meet you.”

Then, by connecting the two, you create value. Because charities need philanthropists and philanthropists need charities.

CREATING SCARCITY

Hiring a Solution

If someone is going to do business with you, they're hiring your product to solve a problem—Just like they hire somebody to fix their back or work for them.

Clay [Shirky] tells the story of he got hired by McDonalds to make milkshake sales go up. He did some research and discovered that 30% of all milkshake sales are at breakfast. It turns out customers were hiring the milkshake to solve their problem which is, "How do I eat something for breakfast while driving that I can eat with a straw?"

And if you could solve that problem you could get hired to do it. The milkshake was the best solution for sale. So McDonalds apparently made up so new kind of breakfast thing that people perceived as being healthier for breakfast.

> **The point is, when you tell me your business, what I'm really saying is, "Would I hire that product or service to solve my problem?"**

I am not saying, "Do I like it or do I like Don?" That's way down the list. What's on the list is, "I heard your story. I trust you enough. I'm going to listen to your story. Now that I've heard your story and I trust it, do I want to hire that story to solve my problem?"

If you think about all the brands, events and stuff we buy, that's why we bought it, to solve a problem. And so I'm going to ask you what am I hiring you to do? And if your product solves that problem, I'm much more likely to hire you to do it.

What it's probably going to be is, "To impress my boss; to impress my family; to connect with people because I'm lonely; to figure out how to feel less afraid." These are the reasons we do stuff. Not because we have six widgets and we want seven.

The Placebo Effect and Telling Stories

Q: How do you say that you're offering a product that will solve the problem of lack of confidence, but you have to sell something else? Like for example, I'm a presentation coach, I want to be super honest to them and say to them I'm selling them time and confidence because most people just need to be sure that they won't make fools of themselves. But I can't tell them I'm selling them confidence. So I don't know how to be like, "what I'm selling is great presentations," when I really care about that the least.

Right. And this is why "All Marketers Are Liars" is a bad title for a book. Because there are very few professions, some very old, where people were extremely honest about what you were buying. But in general, that's not the way human beings want to be marketed to.

Human beings when they buy a $90 bottle of wine, we have real clear data on this, think it tastes better than a $10 bottle of wine even though we could switch the wines. When I go to the person at the table I don't say, "Would you like the expensive wine because the placebo effect will cause you to enjoy it more?"

I have to put on the wine show in order for the placebo effect to work.

You have to make your own ethical decision about whether the ends and the means are justified.

The fact is, there is no non-fiction book published that could not be written in five pages. Right? "Here is the five page summary of what is in this book. You don't have to read it." So why do we want to read it? We want to read it because the act of reading it or just holding it makes us feel different than the information.

The act of going to Bumble and Bumble for a haircut may end up with exactly the same hair as the $30 haircut four blocks away, but it makes us feel prettier. So we are prettier because we walk differently down the street.

You're not going to be able to just walk up to people, tell them the actual digital truth of why you were there and expect the placebo effect to work. It won't. That's the magic of the placebo effect.

The challenge here and the way I've dealt with it anyway is to say,

> **The difference between manipulation and marketing is manipulation is I get you to buy something you regret later. And marketing is I get you to buy something you're glad you bought.**

Your opportunity is to tell a story about why somebody should hire you as a presentation coach that gets them to become confident. Because if they become confident, they're going to be happy recommending you to the next person and you've achieved your goal.

The art of this is, we're going to practice, practice, and practice, can you tell that story, not to me, but to the person who needs to hear it in a way that resonates with them? There are so many examples of this.

How many of you have ever been to a chiropractor? Why doesn't the chiropractor make you take off your shirt?

If they made you take off your shirt, were wearing a white smock, and their hands touched your skin, you would get better faster than you walking in and them saying, "Don't bother taking off your suit jacket or tuxedo, it doesn't matter I'm just going to…and you can leave." That's showing off, but it's not touching human beings in a way that we know makes human beings feel better.

And medical practitioners screw this up all the time. I'm not picking on chiropractors. All sorts of medical practices would work better if the act would be more like sommeliers and added more placebo effect stuff. If the goal is to make people healthier, then that's what they should do. Make people healthier and don't worry about the nuts and bolts level of what's happening at the molecular stage.

The Lock-In Effect

If the thing you're doing catches on, what's to keep somebody else doing exactly what you do for half price and everyone will move? There are a lot of answers to this question.

For example, there are plenty of search engines that give search results just as good as Google, but with more results per page, better privacy, less annoying ads, whatever it is and everyone hasn't switched. In fact, almost no one has switched because the lock in effect it very powerful.

There are people who always go to the same provider when they need a freelance copywriter.

Q: Why didn't they switch off of Google?

Lock in effect. What lock-in says is it's just too hard for me to switch. It might be hard economically, organizationally, and technologically.

Once Apple has persuaded an elementary school to go Mac and then Dell shows up with a cheaper one, even though they're going to be replacing their computers, they don't switch because all their software isn't going to work. The lock-in effect is because the software goes with the hardware, so you're not going to switch the hardware.

But the lock-in effect more often is emotional. You have to admit to yourself or your peers that you were wrong and now you're going to switch to something that's better. Some people are immune to lock-in and switch all the time, but lots and lots of people get locked into a solution. The question is how do you do that?

Why does Starbucks spend so much effort marketing the Starbucks card? Because there's no more money in it for them. The answer is, if you're in an airport and there is a Starbucks partender, you got your Starbucks card, "I'll just go there. It's easier." It builds up lock-in.

American Airlines invented frequent flier miles because it made a huge difference for lock-in. Not because the person who flies the most needs the miles. They don't. But emotionally they felt they were sabotaging themselves by not adding to some number even though they're never going to trade their miles for anything of value.

We're going to keep coming back again to this is going to be really hard for you to make it work. It's going to be really hard for you to get started, but are you building this house on this land, in the structure the way you want, in the way you're going to be glad you did or is it a one-trick pony and then you're going to go to the next thing?

If I look at Angry Birds, Angry Birds is a huge hit. If all they wanted to do was make a hit and retire, it was perfect.

But if they are looking at lock-in for their next game, it's a problem because they never built a direct relationship with the person who plays Angry Birds. There is no Angry Birds newsletter. There is no Angry Birds universe that makes it more likely to play a new game from Angry Birds' company Rovio as opposed to one from their competitors.

Ideas that Spread

Q: Apple has all the cards with the customer's information...so if you want to develop an iPhone app, how do you get around that?

The app market is in large measure a sucker's game for a few reasons.

Reason number one is no one's ever heard of you and there are a million apps to choose from. It's the biggest haystack and you're a little tiny needle.

Number two is once you finally get someone to hear from you, who wants to hear from you, most apps forgot to be social—Instagram being the exception.

Instagram works better because I get all my friends to use it. All I need to do is get Kelly and then Kelly is going to get five of you and if one out of five of you get someone else, I go to infinity.

Whereas if you make me an app of, "I look up and I can see the stars," that's really cool, but if I'm not going to tell 10 friends about your app. It's a dead end. It doesn't scale.

So we're stuck with it's a big haystack and most apps don't lend themselves to spreading.

Then the third thing kicks in. If you want to sell your app, you have this big problem which is no one knows how good your app is until they give you money. And people don't like doing that with digital goods. They like doing it with other things in their lives.

We don't go to a restaurant and say, "Let me eat here then let me pay you if I think it's good." But we do it with digital stuff.

We don't ever buy a record until we've heard it on the radio first for free. The radio is this huge wonderful sampling tool that made the music industry work.

In the app world we have a bunch of apps that say free, but if you use it a lot, you'll pay for it. That's brilliant. Free is a great sampling tool and if they're not using it a lot, they shouldn't pay for it anyway. If they are, they're not going to fight you to pay for it because it's giving them what they were hoping for.

That means the most important thing you can do with an app is making sure it's viral. *[I didn't call it viral on your mug. I think I called it fungal, because I think fungal is more powerful because it works in the dark too].*

Make it fungal meaning you don't have to be famous. You don't have to be the most popular video on Youtube, not that Joseph Kony thing. It can quietly in the dark go from person to person growing among a circle of people.

Q: Well certain ideas don't lend themselves to being viral…

Absolutely, and Atlantic Avenue is a really stupid place to build a house. Because houses cost $150 each, but the rent with one house is only $110. Don't build on Atlantic.

Given that you can build whatever you want, don't build something that isn't going to work.

There are all these apps in which the person who built the app thought it was a good idea. And if everyone knew what they knew it would be fine, but everyone will never know what you know.

What you can do if you want is say, "No. I'm going to build an app that I have to sell straight to each person who uses it." That's the way the world worked for 100 years. That's fine, but you better price it so that the cost of selling it is built into your profit.

When I was selling the games at Yoyodyne for $100 thousand or $1 million each, I went personally. I got into a plane and flew there. It took us six months to make a sale. Our costs of goods were literally zero, other than the people. But we had to charge you a lot because I had to go to all these meetings where no one ever bought from me.

If your app costs $5 and you have to have a meeting with someone to get them to buy it, you're in really big trouble. But maybe it's a $500 app and you can afford to do it because every sale costs $100. That works.

I'll use the Al Gore eBook as a great example of the mistake that all these people are making.

The Al Gore book was beautiful. It costs them hundreds of thousands of dollars to make and it lost a fortune. Other than magazines writing about how great it was, no one ever heard about it. And how many people read about an app in a magazine and say, "Oh I'm going to go get my iPad, press a few buttons, pay the money, and download it." Not enough. And once I had it, there was no reason to tell my friends. It didn't work better if my friends were using it.

The magic of the iPad and the magic of the web isn't that it looks cool on the screen. That was CD-ROM years ago which I used to do. The magic is it works better when your friends and your colleagues are using it too.

> **No one wants to have the only e-mail account in the world. It's useless. Once you have e-mail, you want everyone to have e-mail. That's what makes it work better.**

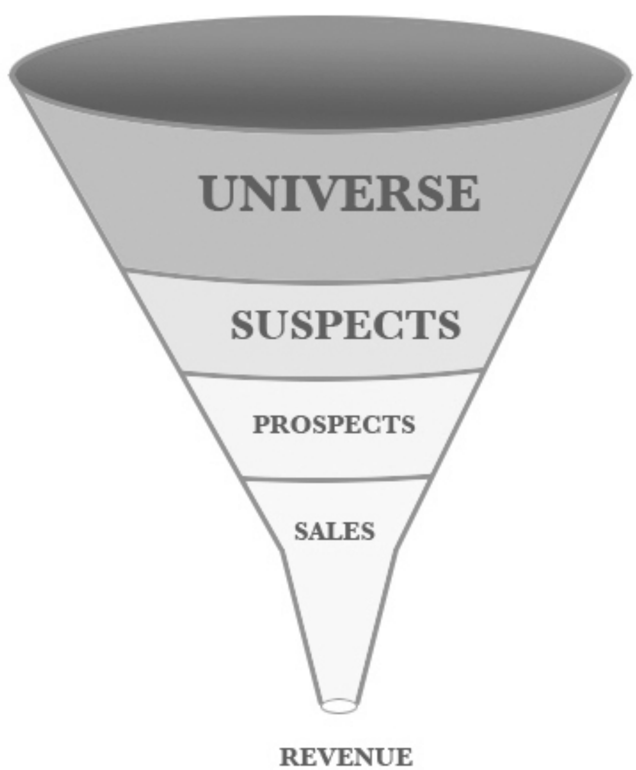
37Signals spends zero dollars on traditional marketing. All they need is one person in this room to use it and then those people do the marketing.

I'm raising my voice here a little because I really want to hammer this home.

You're not entitled to the business you want.

I can help you make it the best it can be given the constraints, but you guys are starting with no constraints.

The Customer Funnel



So there’s this funnel. The top is everybody in the United States or North America. The bottom is customers who gave you money. And the funnel is leaky. People drip out of it. They don’t all come out the bottom.

When you think about the fact that they have to be divorced, talk to a lawyer, talk to a lawyer that’s charging by a flat flee, and talk to a lawyer that’s charging a flat fee who knows you, the challenge you have is you have to be very cognizant of how many people are in the universe left at the bottom and price accordingly.

If the value you are creating is really significant and the cost of making the sale is really high, then it’s not $5. Right? Maybe it’s a $1000 service. Maybe it’s an app that we talked about a minute ago. It has to match the funnel that you are going to create for it.

If you’re evangelical and want to transform the way people get divorced, that’s a totally different discussion.

If you came to us and say “I’m going to use technology as the wedge to change the way people get divorced and my model is mint.com,” which was bought by Quicken for nine figures.

Then I say, “Oh there is a whole bunch of things one could do to dis-intermediate lawyers and make getting divorced way faster and less painful. I’m going to build a whole suite of stuff and go straight to the world so that every time someone says they’re getting divorced, the first thing people say to them is, “Have you seen ______?”

That’s an audacious, big, fat, hairy thing to go after, and you can probably find some people who would give you the money to get you there, or at least have a shot of getting there. But you got to be very careful not to do part of it without doing all of it.

If the mediator wakes up every morning with a problem, that’s one of the things you have to think about. “What problem is my customer waking up in the morning with?”

The mediator wakes up in the morning and says, “I need to get more of my share of mediation things,” and you say to that mediator, “This tool comes with a dashboard that shows back up on your screen and there’s this huge incentive for you to be able to offer it because they’re going to get you new clients.” Then when you call on the mediator and say that sentence, the mediator is going to say, “I’ve been waiting for someone to do that” or they’re not going to listen to you.

But again it goes back to: do people know you? Do they trust you? Will they listen to your story? Does their story resonate enough with you that you’re willing to give it a try?

And the last part of this and then we’re going to go on.

If you have 100 of these mediators who are your customers, you're job is not to find more customers for your product. Your job is to find more products for your customers.

Because now there are 100 people who have said, I'm willing to use technology to get more clients to service my clients better and make more money.

Then you sit there and don't say, "How do I get more mediators?" You say, "What other tools are available to these mediators so I can use the connection economy to do it?

For example, how can I start showing bar charts and other sorts of information to the mediator's clients so they can see, compared to other couples who make as much as you do, this is how this usually goes."

If you're the arbiter of community standards, you can never be replaced, because you're the one who has the data.

The point right now isn't to answer the question, "what problem is my customer waking up with?"

The point now is to know the question is essential. That's what I want you to be thinking about.

You can change this to anything you want and if you want to, you can open a kayaking school. That's how early in the deal it is.

What do you want to change it into so that you're not always climbing up uphill so there's something in it that the wind is in your back?

What is the Hard Part?

What's the hard part of your business? If your business doesn't have a hard part, you don't have a business.

I would argue the easy part of your business in the case of [intentionally inaudible] is the app. You could make this app in three weeks. The app isn't hard and if it's 90% of what it could be or 110% of what it could be, it's not going to matter. The hard part is finding somebody who is a middleman who will make you successful.

When I think about each of you and the business you want to create, you got to understand what's the hard part and spend all your time on that.

I constantly run into people and ask, "How's your project doing?"

"Well, I filed the DBA certificate, we've been incorporated, I think I've got some office space coming, and I hired the guy to do the logo…" And they go through the list of all the stuff that doesn't matter because it's easy. They should have spent a $1 on it and moved on.

Your logo is never the hard part.

It just isn't.

All the time you're spending on your logo is the time you're hiding from doing the hard part. And the hard part is often being known, being trusted, or being able to create something that occurs that people can't live without.

This is different from what is the scarce part. Scarcity is the only thing worth paying for. If you make something that is incredibly abundant and everyone has it, you won't be able to sell it. But you can create scarcity by doing something that isn't particularly difficult.

Creating Scarcity

If James Taylor decides to put out a concert and there are only 200 seats, he created scarcity and he can sell those seats for $1,000 each and make $200,000 in an hour. What he did that was hard was surviving being a heroin addict, being a great singer, and doing it for 40 years. That's hard. But creating scarcity in that moment was easy.

So you got to think about, "What am I doing here that is both hard and scarce?"

As I use this, as it grows, as it catches on—does it become more valuable or less valuable?

If we think about this, we think about somebody who is trying to create collectible fine art. Andy Warhol has showed that you can cross this chasm and become valuable just because you're everywhere. But generally the more times you paint the Mona Lisa over and over again, the less it's worth.

There are other things that become more valuable as more and more people use them like e-mail. If e-mail was held hostage, the universe would pay more to keep e-mail then it would have paid 15 years ago. As people use it more, it becomes more valuable because we get dependant on it.

Someone is here who's doing a philanthropic thing in their town—Kelly.

When six philanthropists are involved in what you are doing, is it worth less or more than when 100 philanthropists are involved?

For some people their worldview is, "I like being part of an exclusive early adopter group." Then it's less valuable because there's more people in. It's so crowded no one goes there anymore.

Other people like the fact that it's crowded and so it's more valuable.

So we have to think about as this project scales, is that going to make it better or worse?

Stealing Ideas

The first question is: "Is someone going to steal my idea?" And the answer is probably not.

As your discovering here, there are ideas all of you have that have great chances of working and very few of you are busy thinking about how you are going to do it. Even though you've already decided you want to be entrepreneurs, it's not as easy as stealing the idea.

So Twitter starts catching on, and yeah there's Yammer or whatever it is and people have came up with variations, but in general, that's not your problem.

> **Your problem isn't that people are copying. You're problem is not enough people are copying.**

As you try to interact with the tribe, as you try to make a ruckus, being the one and only is usually a problem.

If you were the one and only fashion label, you would fail because the marketplace wouldn't care about fashion. It's Vogue magazine and competitors that make fashion work. Tommy Hilfiger wants Ralph Lauren to be in business, not out of business.

Tribes

When I talk about tribes, I don't mean nearly a group of people. So left-handed people, not a tribe. I can identify with all the left-handed people in the world, but they don't care about each other. A tribe has to have a goal, a culture, a community, they have to care.

If I talk about gay men in America, they're not a tribe.

There are subsets of gay men in America, the ones that care about the Christopher Street history and go to a parade, that's a tribe. For sure. They can look at each other and give the headshake. They're wearing the same thing. They talk the same stories. That's a tribe.

You will always do better if you're building something in the connection economy if the tribe embraces you. We're hard wired to do what other people are doing.

How many of you know about Tom shoes? Very clever idea. Buy a pair of alpargatas and he gives an identical pair to someone who's never worn a pair of shoes in their life. Why doesn't everyone in America wear Tom shoes?

Because Blake didn't start with everyone, he started with a very specific Daily Candy reading, urban dwelling 29-year-old woman who wears a certain thing and recognizes other women like her. That was brilliant because you only have to get 100 of those women before you get a 1,000 because the tribe is in sync.

You can't light it forever. Soon they are going to go on to the next fashion. So he has cleverly said, "So now that I got this, I'm going to go talk to this group of people."

It's ok with you that this might move to other tribes. If you got it right, you're going to have enough momentum that you can go faster than all these other people because they're afraid and you're not because you've seen it from the inside.

But the other thing the resistance speaks up about is this, "I don't want to pick one tribe, because if that tribe rejects me, I will have failed. I want to pick 20 tribes because there's always another one."

As soon as you pick 20 tribes, the tribe knows that and they know you're not obsessed with them. They're going to become less obsessed with you as a result. It's a self-fulfilling prophecy.

If you're playing the field and you're at a singles bar, it's way less likely that you're going to get married because the people in that room have a different attitudes about each other.

If you go to the industry and this is it—we care about you, we're committed to you—and you work you're way in that industry, you're way more likely to convert that tribe. And then you can take the stories from that tribe and you go to your next tribe.

That is the place to start, but you have to define the tribe.

The tribe might not be how old they are or where they live. It might be they're big fans of vintage Rolling Stone records. You can't tell from looking at someone if they're that kind of person, but you know they are all reading the same magazine, the same newsletter, or the same whatever.

APPEALING TO CONSUMERS

The Sales Funnel

Now back to this funnel because its one of my favorite drawings and then I'm going to draw the Rogers curve.

Do you all know how Google makes billions of dollars every month in profit? Those little ads next to the search results. Do you know how they price the ads? You pay by the click. But how do they decide how much a click costs? It's an auction. This is unbelievably brilliant what they did. Bill Gross sort of invented it and Google figured out how to maximize it.

Here are all the people who are searching for something and I run an ad saying there is a side effect of Viagra where it's discovered that it makes your ears get bigger.

I buy an ad on Google that says "Ears getting bigger? Click here to join our lawsuit," and I put it up next to the word Viagra.

That's going to cost me $8 a click. Let's say 5% of the people who see this ad click on it. I only have to pay $8 for each one. They come to my website. How much does it cost to get that person to my website? $8

Let's say 1 out of 10 people who see that click on the next page to learn more about my firm. How much does it cost me to get somewhere here? $80. *[Does anyone not understand why it's $80, this is really important. I have to multiply by 10. Yes?]*

Now let's say 1 out of 5 those people give me their e-mail address so I can follow up with them. How much does it cost me to get an e-mail address? $400.

And let's say that I e-mail people the newsletter blah blah blah and 1 out of 10 of them join my class action lawsuit with the big ear problem. How much does it cost me every client? $4,000. That's how much it cost me to make a sale using this thing.

If I succeed in my case against Pfizer, I'm going to make $100,000 per person in profit because that's how much my legal fees will be which is great. Clearly I should buy as many of these people as I can for $4,000 because my revenue from each one is $100,000. Do you see why? Make sense?

[Instead of me picking a big lawsuit I could pick I'm selling the melon of the month club, the math still works.]

So now, someone else sees what I'm doing, goes to Google, and says, "I'm going to pay $16 a click."

If the cost of the click goes up to $16, what's my cost of a sale go to? $8,000. The answer is cost-per-click doubled, so cost-per-sale doubles.

This is magic because who's taking all the profit off the table? I'm willing to keep in the bidding war until I get to $99,000. I'll just keep paying more and more and more because it's worth it to me.

All the profit goes to the auction. Google is clearing the board in every single industry that does online anything because they get to keep the money. With me?

Now, if your competitor realizes that you don't need two pages to get someone's e-mail address, but only one page, they're going to be five times more efficient as you are at running this funnel. Their cost of a sale is going down by 80%. See why? Suddenly they can bid a fortune for these links. You can't afford them anymore. And they're going to get all the customers.

This funnel is exactly the same thing that happens if you have a sales force.

It's exactly the same thing that happens if you have ads that run in magazines.

It's exactly the same thing that happens if you're buying shelf space from Whole Foods.

In every case, there is an amount of money you're willing to pay to get the attention of the masses and there's an amount of money you get at the bottom for the cost of making a sale.

I'm going to let this one sink in for a minute because this going to transform the magic.

One of the things entrepreneurs do is we believe in magic and say "I'm going to build this great thing, and a miracle happens, and I'm rich." And it's that "And a miracle happens part" that I'm concerned with.

So Kit needs to reach mostly tourists who are coming to Miami so they will pay her $125 to use some of her services that she offers—tours and Vespas and things like that. The only reason she doesn't have a million customers is because she can't figure out an efficient funnel to get in front of a tourist on the right day with the right story so that tourist then listens to her story again, comes to her facility, and hands over their $125. And if you fix this problem, everything else will take care of itself.

When we think about the business we say,

> **"How do I change not the funnel, but the business itself so that it makes it more likely that my funnel gets more efficient?"**

You may have seen these tours they have in various cities where they use old World War II amphibious boats. They drive through the city, it hits the river, and drives in the river as a boat. They call them Duck tours and they give everyone on the boat this really annoying Duck noise thing. Why would you do that? Duck noise machines are expensive.

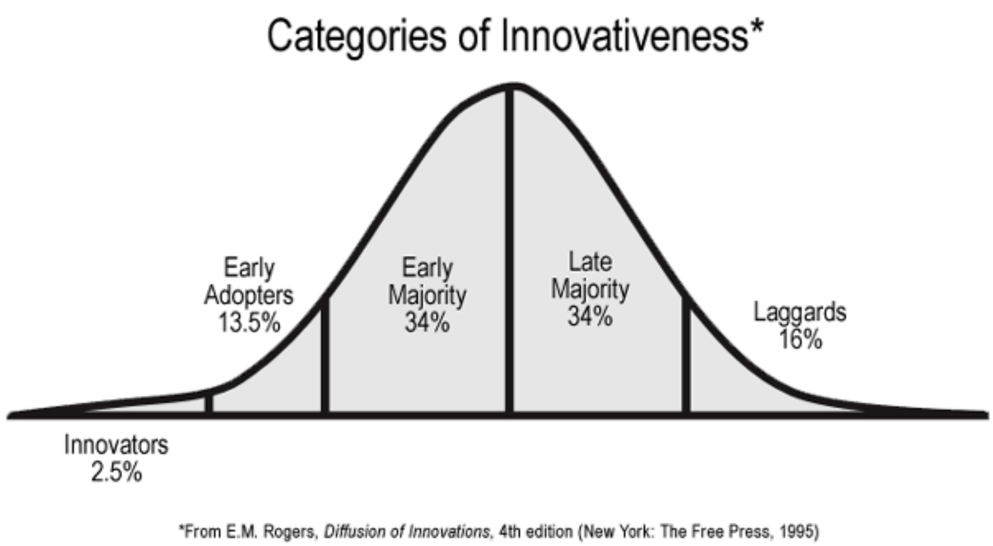
The answer is because what are tourists doing? They're walking around. While they're walking around, this boatload with wheels of happy tourists quacking like ducks goes by.

The act of running their business is also making their funnel better because right on the side of their boat is their phone number. That is the only method they need to get more tourists to get on the next boat—the act of doing it in front of them. So when I think of Hanz and his thing, a lot of the time that these guys are out there with their pitch, they're doing it to someone who might become his next customer.

Or the guy who runs fancy fortune cookies, a business I think out of Georgia. They're the number one fortune cookie maker in America. They will make fortune cookies for your company event blah, blah, blah. The number one way for him to grow would be to offer a discount if you're willing to let him put his URL on the back of the fortune. Because every single person who's at an event opens it up and says, "Oh that's clever"—they see on the back how to order cookies for *their* event.

So again, short circuiting the funnel as it grows

Diffusion of Innovations



This is the bell curve—the normal distribution. For the liberal artists in the back row, if I ask all of you to get in height order from 4 foot to 7 foot and I measured, what I would see is a couple people who weren't very tall, a couple people who are very tall, and most of you in the middle.

If I organized any group of people I meet on the street by hair length or the number of CDs they own, it would be exactly the same. There would be a whole bunch of people who own one CD, another few who own 10,000 CDs, and most people in the middle. This distributes for almost everything in nature.

If we talk about worldviews, it turns out that we always distribute in the following way:

There are a few people who like to buy stuff merely because it's new. These are the people who use to watch all their TV on a Tivo, but now watch it on an iPad instead because it's cooler.

Then there are people who waited until the DVD player was $80 at Wal-Mart before they bought one. They are the masses. There are a lot of them.

And then there are people who still have a 12:00 flashing on their VCR.

If we think about the market for shoes, there are women who read Vogue magazine for the Ads and people who buy six pairs of New Balance at a time and they don't back to Zappos for six more years. And you have to think really hard in the group you are thinking about.

Are you selling a product that's going to appeal to early adopters because it's new?

Or are you selling something that's going to appeal to people only when they have to because everyone has it?

Or are you trying to appeal to the masses?

These are fundamental different groups of people. And this is where technology people got in trouble for a long time.

There is this theory that the Boston Consulting Group put out there. You would make something for the geeks and as you made it more and more it would get cheaper to make because that's what happens with digital goods. It would become more popular so you could just ride the wave to the masses.

And that happens once in a very long while, but not often. The reason is because between here [the geeks] and here [the masses] is a chasm. A big gap. This chasm is because these people want something that's cool and these people want something that works.

If we think about the typical app on the iPhone or the iPad, there's a bunch of people who buy it right away because it's cool. But these people don't want to hear about that. They want a completely different story. "That it is a complete solution," has nothing to do with cool. And that gap, that chasm, is in a book by Jeff Moore called "Crossing the Chasm" and it's where a lot of you will get into trouble.

What you have to think about is: "Am I happy being a small enough business or a freelancer that all I need is a few early adopters and I can declare victory? Or am I building something for the masses and it doesn't work until I have the masses?

If you read Tech Crunch and all those other online blogs, they are entranced by new cutting edge businesses.

Did you see that one that got $40 million dollars in funding called Color? It's this big thing. All the 1 million people who tried the new thing—there's 1 million of them that all got it and it completely failed down to zero. The company raised $40 million dollars and had to start over. They're on their third try now because it doesn't work unless they have 10-20 million users. So it doesn't do them any good to come up with something hip. They have to come up with something for everyone to use.

Mrs. Sripraphai and the Curve

Let's say it's 20 years ago and you are one of the few people who move here from Thailand who can actually cook really well in some sort of volume. You look around and say, "There are no good Thai restaurants in New York City of all places. There ought to be a lot of them."

The instinct of the entrepreneur is, "All right great this is better Thai food; I'll win." But that's not the way it works.

So I want to take you through Mrs. Sripraphai's thinking and how it came to be that her restaurant makes millions and millions of dollars in Queens, way off the beaten path on the seven train and how she got there.

First of all, how does someone like me, a customer she needs because I'm willing to drive to Queens to have jungle curry, find out that this restaurant even exists?

How do you use tribes, early adopter thinking, and cost of sales to grow a little tiny restaurant that literally only had four tables the first few years she was open to one that's now eight times the size with a patio in the back and another branch still closed on Wednesdays a few miles away?

It starts with this. In this distribution of people in New York who go out to eat, there's a group here that want to go to places that haven't been in the New York Times yet. And this group was organized by a guy named Jim Leff. Jim started a site called Chowhound.com.

Chowhound.com was the tribal watering hole for people who wanted to give each other the buzz on something that was new. At its peak, 300,000 people a month used chowhound. Half were probably in New York City and of the half (150,000), probably only 50,000 were interested in Thai food. Of the 50,000, probably only 10,000 were going to go to Queens.

So there were only 10,000 people who mattered to Mrs. Sripraphai other than her tiny community of Thai people. But she couldn't make the business work at the level she wanted if it was just for Thai people.

Instead of doing what every other Thai restaurant does which is, "We have Pad Thai, come here," she said, "We don't have Pad Thai, and if you're not one of the 10,000 people, you're probably not going to like this place. And we're going to serve stinky long beans and crispy water cress salad, but we're not even going to put it on the menu because your either an insider or you're not. And if you're an insider, you're welcome here."

By making the perfect restaurant for those 10,000 people, what she did was make it irresistible to those 10,000 people because there was no place else. She had a monopoly on interesting Thai food in New York City 15-20 years ago.

So what happens?

It turns out that chowhounds talk a lot. When you go out to dinner, you rarely go by yourself, so you bring other people with you. Some of the people you bring with you don't like it. That goes against everything most entrepreneurs stand for.

Fine with her.

"If you don't like it, don't come back. But if you do like it, I have a monopoly on this for a while—for this group before you get bored. You're going to have to come back."

At that point someone from the New York Times, who's trying to please his boss by writing about something that hasn't been written about before, steals some of the insight from the Chowhound people and goes to the restaurant. He writes a two star review of a restaurant where it's not very expensive and there are no tablecloths.

This is very unusual in New York. This was an important thing. It was a spin of the wheel. It didn't have to happen, but it did happen.

And so, when the New York Times gives it two stars, something occurs which is a whole bunch of people who's worldview is, "I don't go to Queens," have a problem which is, "I always eat at restaurants that get at least two stars in the New York Times. Conflict.

A lot of those people went and tried this restaurant because it's now moving through the curve of the population and it has trust and authority because they found out about it from someone who they trusted.

At that point an interesting thing happens.

Zagats has at the front of the book a ranking of the highest ranked restaurants. Well Mrs. Sripraphai had picked a category that was almost empty. And she had

10,000 Chowhound's on her side plus a whole bunch of people who didn't know what good Thai food tasted like, but knew the Times had given it two stars.

These groups of people ended up giving her a huge rating. For many years she was one of the top five ranked restaurants in all of New York City at any price because this reporting system was in her favor. Does that make sense?

Now she's moving through the curve. She's doubled the size and she's doubled the size again. Now she has 30-40 tables and it's busy all the time, except on Wednesdays. You know that I've been there on Wednesdays and have been broken hearted. So she's moving through this curve.

We can talk about the whole life thing, that she also loves it. She also loves being able to make this cultural statement with her work, etc. But if we look at this as a business and compare it to the 40,000 other restaurants in New York City that weren't smart enough to do this, you see what I'm talking about.

She could have built it anywhere she wanted. She could have structured it anyway she wanted. She could have priced it on the menu anyway she wanted.

One of her competitors from Las Vegas opened one in a better location in Manhattan with white tablecloths at three times the price and it failed. The reason it failed wasn't because it was more expensive. It's because they didn't guess properly about how to tell the story and what would happen when people got there—that when you got there, their menu was too small and it seemed too ordinary.

As Chowhounds, we all raced there the first day because this place in Las Vegas—some of us fly to Las Vegas just to eat there—and now it's in New York and it disappointed us because they were trying to go here right away. They skipped the tribe leaders. They skipped the dues paying process to work their way up as they were trying to do this.

Q: How much of that would you say is deliberate? How much of it is this is just the way she cooks, this is the way she...

I think that she had naïve wisdom. I've given her my books and we've talked a little about this. I think most people who meet her say that she's idiosyncratic. Sometimes idiosyncratic people end up failing because they're not in sync with the universe. She happened to be. So when a Chowhound showed up, she didn't shun the person for not being Thai. She would take 10 minutes to explain what nam phrik is and why you want to dip your carrots in it. That was her instinct, but it happened to work.

But I've also seen people who have done it on purpose—people who open a business that's supposed to be exclusive. Even though it's empty in the back, you don't let people in or you make them wait behind the velvet rope. Well they like the velvet rope. That's why they're there.

Or all these businesses that hire people to bring their friends the first couple weeks that it's open. You can hire a publicist to get celebrities to come. All of those things are all keying into that tiny group of 10,000 people to delight. Then it worked its way through if you get the other pieces of it correct.

Picking Nothing is Guaranteed to Not Work

Q: What if you have different ideas and each of them has a different target market and the hardest part about what you do is picking what it is you want to do and figuring out what the hardest part is?

Why do you think it's hard for you to pick?

A: because I have different interests that I want to do at the same time.

Try again.

A: because I'm not committed to anything

Why aren't you committing?

A: because I can't predict which one will work.

Why is it important that you know which one will work?

A: I don't want to waste my time.

And you don't want to fail.

> **All of us have lots of interests, but we always figure out what to eat for lunch.**

We don't say, "If I can't decide if I should have the sandwich or the pasta…" Right? At some point you have something to eat for lunch because the cost of failure is tiny. You will not be crushed because the pasta isn't as good as the sandwich would have been. You just eat something.

> **The posture, the dynamic is this: picking nothing is guaranteed to not work. Picking something has to be better than that.**

The discipline, and I speak from experience because when I was a book packager we had a database of 100s and 100s of book ideas in it. How do you decide which book idea to pursue? How do you decide which to spend a month on spec for? Well the answer is the bestseller is always a surprise. The businesses that work always amaze the pundits.

Given that no one knows, you just have to pick. It's not about being right, it's about being—about putting in the world and saying, "This is me, this is my business."

A: The problem is that I started with three things I meant to do at the same time and that is not sustainable because I'm not doing any of the three well enough just because...

Correct. So we're going to kill two and you're going to be stuck with one. And that's sad, but true.

What do you want to do all day?

Let's talk about the difference between the structure of your business and what your business does.

If you are peripatetic and you need to be constantly shifting from one thing to another, one ought to build a business that rewards that. As opposed to say, "I have to be a massage therapist for eight hours a day."

The person who wants to be a massage therapist for eight hours a day doesn't worry about becoming bored with it.

On the other hand, Dick Cavett's business was, "I'm a talk show host, but every day there is a different person to talk to." It's less likely he's going to get bored if the business is going well because there's someone interesting coming in tomorrow.

For me, I had 70 people working for me. What I discovered was I don't like having 70 people working for me. It was too much responsibility. I was taking care of too many people. It kept me from taking the risks that get me out of bed in the morning.

So I rebuilt my life so I have no people working for me. And at Squidoo they work for the company; I just bother them. Now it matches my personality.

If I want to make a record album one day and do a book three months later, I can. I'm still doing my job which is this thing I'm doing right here. But I'm never going to do this event again—never going to do it with you in this place. This is a once in a lifetime thing for me. Almost everyday I do a once in a lifetime thing.

There are other people who keep doing the same thing every day because that's who they are. This has nothing to do with your business strategy, it has to do with what do you want to do all day?

PERMISSION AND TRUST

The Lifetime Value of a Customer

If you can live on those people, that's enough. That's what a raw food juice bar in a low rent district can do. On the other hand if you say, "No, I need 5 million vegetarians so I can get Kraft as a sponsor," that tribe isn't who you should start with. What will make that tribe happy will never make 5 million vegetarians and Kraft happy.

Figuring out how to get from where you start to where you need to be is critical. If there is no path, there's something wrong with your business.

That goes all the way back to, where do you want to build your property? And how much does it cost you to get a vegetarian and how much is a vegetarian worth?

Because the question after how much does it cost to make a sale is, what's the lifetime value of a sale? So let's talk about this.

How many pairs of shoes do you own Chris? Five, and they cost $90 each. Chris is worth $450 to this little shop in Oregon. Not every one of their customers is worth $450, but Chris is.

If you make a product people only need to buy once in their whole life, it's very different than if you make a product people are going to use everyday forever.

How much is Starbucks willing to spend to get someone addicted to espresso? The answer is probably $100. They're probably willing to spend $100 on real estate to get one person hooked because their lifetime value is $500. See that?

When someone is competing with Starbucks, they say, "It's not fair. The rent is too high." Starbucks says, "No, no, no. The rent is not too high because I'm creating 1,000 addicts every time I put in a new facility." They're taking the correct view in a competitive market.

If you're Henry Lewis and you're building a weekly news magazine, how much are you willing to spend to get one new subscriber to Time magazine? You do the math. Well you say, "If someone subscribes for six years and doing the math of 40 ads per issue, 50 issues a year, five years, blah, blah, blah, each subscriber to Time magazine is worth $200 to me."

So if someone comes to you and says, "Buy TV ads to get new subscribers to Time," and the ads are $150-$200, you buy them because you make a profit. It's all built into the structure and how you maximize the lifetime value of someone who's expensive to reach.

For example, for someone in Kit's case there is not a lot of repeat business because first you have to come back to Miami as a tourist. Secondly, you have to want to do it again. Most of the value she is going to create is going to come from that first interaction. On the other hand, if it's fabulous that person is likely to tell their friends when they go home. Suddenly the cost of marketing goes down because people are telling one another.

Making it Work

Two things are happening and I want to call them out. If they're not happening to you, that's fabulous.

Thing number one is, some of you are saying, "How do I make all of what I've learned this morning work for the structure of the business I'm already committed to?" And the parts that don't work, you're ignoring.

And some of you are saying, "This is a vast untapped territory. I have no chance of succeeding. I'm never going to get it right. I surrender."

Both of them are the wrong responses. Let's take them one at a time.

Entrepreneurs by their nature are willful, strong willed, bull headed, and committed. If we're not, we fail. But sometimes we get hung up on getting confused between sticking with the right path and sticking with the wrong path.

The person who insists on pushing their independent bookstore—"Independent bookstore! Independent bookstore!"—in the face of what's happening in the world isn't a persistent entrepreneur. They're a fool.

They say, "I got to figure out how to sell eBooks." No, you're never going to be able to sell eBooks in your independent bookstore. Don't try. There's a lot of things you can do in your independent bookstore, but falling in love with the archetype or the vision you have in your head is not the way to do it.

If all you've taken away from the last four hours is that these things are interesting on the side, but I got to stick with making better Thai food, you've completely missed the point.

The more degrees of freedom you introduce over the next few hours, then you'll lock them back in, the more likely it is you are going to build a business that works.

I'm going to give you more and more examples of how that happens because I only have a couple of these questions left. You're going to need to feel the texture of the examples to see how this works in the connection economy, which doesn't necessarily mean on the net. It just means that's what we're valuing now.

The second group of you and I can see it in your eyes is saying, "Ah, it's possible to build the perfect entrepreneurial project. I can't because I don't see it." And you have to start before you see the end.

There's no way to do this without starting before you see the end. You build the fundamental building blocks. You put them in place so that every day success leads to more success. It will get you somewhere, but where you're trying to go isn't what you're going to have the first day.

It's more about,

> **"Did this interaction permit me to survive? Can I keep piling on these interactions one after another so that it becomes a virtuous cycle along the way?"**

1,000 True Fans

Mark asked about my blog. I talk about blogs a lot because it's good for the soul, but it's also an extraordinarily inexpensive low risk tribe-building tool. If you commit to writing something for your tribe, not about you, but for your tribe everyday, over time you will increase the footprint you have with your tribe and the trust your tribe gives you. And it's free.

Those people will e-mail you and you will find out what they're thinking, which is free. Then these interactions will scale which is free.

At some point you'll decide you hate these people and you should shut it down or you'll decide you want to do for these people, be with these people, and leverage these people. In which case, the business ideas will just come to you. They'll just keep presenting themselves over, over, and over again.

If you look at Boing Boing, one of the most popular blogs ever, their business model is a little flaky. They make some money on advertising, but basically Cory, Mark, and Xeni have all these doors open to them because there is a million mutants on earth who trust them. A million people who if they say, "I'm writing a new book," will go buy it. A million people who if they say, "I'm going to be in New York, come to this meeting I'm doing," will come.

Kevin Kelly calls these people the 1,000 true fans. If there are 1,000 people who will fly to Hastings and spend three days with you, you never have to look for work for the rest of your life. You're done. 1,000 people, that's all it takes.

I'm not patient with folks who say it has to be perfect and proven, and then I'll do it. It will never be perfect and it will never be proven. All I can keep doing is piling up the examples and then interact with you as we talk about this.

You're going to need to think really hard about, what story do you want someone who *hears* you to tell?

If I said to you, "Tell someone who's never experienced it what Nike products are like," and you talked about Nike, most of you would say something that would make

Phil Knight happy. Same thing with Harley Davidson, an iconic brand that has a monopoly on what it stands for.

But, if I said, “Tell the person next to you about Delta Airlines.” Even though Delta Airlines spends millions of dollars a year on something they call marketing, you’d all say something different based on some random personal experience. They could pretend they have some slogan. They could pretend they have some integrity. But they have no connection. No one, other than a frequent flier mile holder, would miss Delta if they went out of business and it was replaced by a different airline. No one would miss them.

> **The key to what you’re building is, can you build something that would be missed if it were gone? Can you become the speaker, impresario, connector, or software developer that if you weren’t there, we’d have to hassle before we found someone who could do it?**

Focusing on What You Can Do

Now, I just want to go through the last two questions, which aren’t nearly as important in the beginning.

One, how do I make what I’m making significantly more cheaply?

In the case of somebody who wants to run a successful bar and grill, if the scarce thing they offer is a great environment to drink whisky and beer and they’re spending a fortune making chicken sandwiches, they could probably spend less money making chicken sandwiches and still have the place be what they need it to be.

One of the things to think about as we’re starting these things is what have you built into your assumptions that are going to make it hard and expensive that you can skip and still make it scarce and valuable?

One of the ways to do that is by using off the shelf software. Lots of times people say, “I have to build this perfect piece of software to make everything work,” when in fact, maybe you don’t have to do anything of this sort. Maybe you just build these things in keynote, export them to the iPad, and they work. You haven’t spent a penny on development.

Can I do it faster?

Can I figure out how to interact with people that gives me more alacrity?

One of the big advantages you have of being small and being new is you don't have a committee and you don't have processes. It's just you. Sometimes that's a disadvantage, but lots of times that's an advantage.

When I was book packager and it was just me, I was able to get a book from an idea to done in five days. A lot of the people we were working with couldn't even have a meeting about doing something in five days and we were done. Not every customer wants that. But that's an interesting place for you to start.

> **Start with people who value the thing you *can do* as opposed to pretending to be someone else.**

Launching is Overrated

Then we're going to spend a lot of time talking about shipping. It's so easy to become paralyzed in the pursuit of perfect that you end up not being good. You're so worried about launching in this spectacular way, so you never do.

I think launching in the connection economy is way overrated. It's not important at all. The big gala, the large book signing, and the press releases—all on the first day—it doesn't matter anymore. The media you were trying to put that show on for is gone.

What matters is you didn't start using Gmail until it's been out for a year.

You didn't start subscribing to that magazine until it's been in business 40 years.

You didn't start going out for Starbucks coffee until it's been there for years.

This idea that the first day everyone has to come isn't what's going to happen.

What's going to happen is a few people are going to interact with you enough that they understand the value, they trust you to deliver the value, and they pay you for it.

Permission Marketing

A friend of mine named Dany started a business called Daily Candy. The deal is if you're a woman, into fashion, and live in one of ten metropolitan areas, all I want from you is your e-mail address. That's all I want.

Everyday, for the rest of your life, I'm going to send you an e-mail with nice illustrations telling you something cool that's happening in your city. Prada is having a sample sale, there is a cool party going on in this bar, they just opened this new Loehmann's branch, whatever.

She ran this for a few years, sent out an e-mail everyday and she and Bob Pittman sold it to Comcast for $125 million. Now, I'm not saying money is the only point here. What I'm saying is what did she create that's valuable?

What she had was permission and trust of a few people. Not a lot. Just a million. Only 1 out of 300 people in the country.

They said if your e-mail doesn't show up everyday, I'm going to complain. I'm waiting everyday patiently for your e-mail to show up. If it's not here, I'm going to miss it. And two, if you tell me about something, I'm more likely to try it.

If you said, "I want to figure out how to get the largest possible number of right people in Charlotte to get an e-mail from me three times a week. All I'm going to send them is a video I'm going to make of me interviewing someone from a different non-profit, three times a week. It's only three minutes long about why they are amazing." Drip, drip, drip.

Over time if you get a video that resonates with you, you can forward it to all your friends. You can't do that with a website. Drip, drip, drip. The number of people who are subscribing goes up.

So now if you call up a nonprofit, and say "Hi, I want to feature you in this e-mail that I send out to 12,000 people everyday, and oh by the way I know you get it. I'm going to produce it, and by the way you know how good my videos are because you've seen them. Can I come?" They'll say, "Can you be here in an hour." Why wouldn't they?

> **The asset you are building that you can point to is not a website that is hard to change. It's a Mailchimp e-mail list that everyday gets more valuable.**

It will never get less valuable. See what I'm getting at?

Then the success stories that get created are simple. I'm going to show you an example.

When you get a chance, everyone clap your hands just once really loud *[mostly in sync claps]* Ah. You're too good. You're in sync. All right, this time we're going to do it all at the same time. One, two, three *[perfectly in sync claps].* The difference is significant. When there are lots of little claps, it doesn't count for very much. But if everyone claps at the same time, we notice it.

So you become this power broker. Because you'll be able to say, "I've got these 15,000 people who are nascent volunteers or nascent philanthropists and you are the next one I pick." Then you can go to charities and say, "You know, I picked you and you didn't convert, so I'm not going to pick you anymore." But we learned something. When we did this story and the conversion was easier to do, a whole bunch of people went and did it.

The Impresarios and Permission Marketing

Kickstarter was started to say there's all these projects that would get done if we knew in advance that people were going to buy it. "I want to make a record album, if I just knew 1,000 of my fans were going to buy it, I could easily have the confidence to make it. And if you all put $10 up front, I can actually walk into the recording studio. We're done."

Kickstarter said, "Here's a platform. It's very simple. Go to your fans and say this is what I'll make if you put up enough money and if you don't you get your money back.

Once again, people on the Internet confuse the mechanics to do something and what actually makes it work. Kickstarter is irrelevant. If you have an audience you can reach, you can do it without Kickstarter. There are all these Kickstarter clones. Kickstarter adds almost no value to someone who has an audience.

My book, the Icarus Deception, I did it on Kickstarter. For my book, 4% of the money that came in came from Kickstarter. 96% came from people I sent to Kickstarter. So it's not like Kickstarter has this community of eager philanthropists. Kickstarter just has a piece of software that let's me adjudicate demand with supply.

This really different than Casey Kasem or Clive Davis. Casey Kasem goes to all these radio stations and says, "Every week I will give you a two hour radio show. We'll split the commercials. Half the commercials you'll sell. Half the commercials I'll sell. Everybody wins." For years, years, and years, Casey made millions of dollars making a radio show. Who has the power? The musician or Casey?

The answer is Casey has the power.

Why does Casey have the power? Because Casey has a relationship with the radio stations and the radio stations have a relationship with the listeners. So if Casey wants to make you famous, he can, and if you want to pay him a gratuity, that's fine, but the artist has no power whatsoever.

Kickstarter says "Whoa, whoa, whoa. As an artist you already have a relationship with your reader, listener, or fan. We will let you go straight to that person leaving Casey Kasem, Clive Davis, and Sunny Madha out of the equation because you can publish yourself."

Artists hate this. They don't like having to keep track of all these fans. They don't like having to collect all these addresses. They don't like people complaining the statue of the Icarus is fuzzy on the book cover. They just want to make their work.

If someone came forward and said, "I'm the Casey Kasem of big thinkers and my first project is Clay Shirky's new book. I will keep you posted on how Clay is doing. Clay is in the video, so you know he and I are doing it together." Everyone would think that would be great.

You and Clay have their e-mail addresses in this file. If you e-mail everybody a month later and say, "I'm back again. Remember I brought you Clay last month. This month I'm bringing you Jeff Jarvis."

Some people are going to be annoyed and think, "No, no, no, I signed up for Clay." That's what permission is, keeping promises. But if you were clear up front, they get Casey's new job. Kate is the impresario of big thinkers monetizing their work for their fans.

With each person you get the new big thinker's e-mail list where he's going to alert them via his blog or she's going to alert them via twitter. Plus you get your back asset of all the people who have funded your previous project. Who does this sound like? Bill Graham.

Bill Graham presents is exactly it. He owned Winterland, but he also rented the Cow Palace. He could find a venue any time you wanted to. But no one ever came to hear Bill Graham perform because he had no talent. They came to hear The Dead. They came to hear Jefferson Starship. What Bill built were these networks of relationships and you knew if Bill was going to break a new act, it was probably worth going to.

There is a huge vacuum of impresarios. We need Bill Graham. But he's dead. So where does the next Bill Graham exist. He or she is the person that is the broker of trust, attention, and talent and building a bridge between them.

Amanda Palmer, who's wonderful, is not going to make a lot of money on her record and she's having a nervous breakdown. She put herself completely into this thing and then when she's done and goes to recover, that asset is going to waste. All those people, 100,000 of them that paid on average $12, they're just going to waste.

Whereas if she had a trusted partner who could find the next Amanda Palmer and handle all this craziness, you can do it again.

That's what I'm talking about. That asset dramatically cuts the cost of customer acquisition and dramatically increases speed to market and trust.

Productivity and Tribes

Here's what people in business will always pay for. If an individual is paying X to get Y and you can prove to them they can get 2Y for the same amount of X, they'll try it. That's not often something you can promise. But if you can promise it and deliver on it, then there will be a line out the door.

If you're a sales trainer for example, and the people who graduate from your sales class close twice as many sales because it's that good, you're not going to have any trouble over time growing your business. Because they are already measuring things on this axis and you just took them from here to here. You didn't give them a new thing to measure. You just said you're going to get more of that thing you're paying for in a very trustworthy way.

That's really different than saying, "I'm going to charge you something you're not used to paying for."

Productivity is about getting more for the amount invested. You need to say, "What are people paying for and can I dramatically increase it?"

If it's presentation coaching, I would say something like this, "Which group of people has a very high stakes presentation that I can reach who share a worldview and understand paying for stuff is worth it if it makes things get better?" That's a tiny fraction of the actual people who give presentations.

The second thing, there probably is not going to be a repeat customer if all I'm doing is teaching them how to make a presentation. Which means, I need to charge a lot for it or I have to do the whole organization. Or, "I'm not going to teach them, I'm going to do it for them." And that's what Nancy Duarte does.

Nancy Duarte says, "Every time you need to do a presentation, send me your bad slides, send me your notes, I will send you back better slides with better notes." And if you are CEO, work for a CEO or do big presentations, etc., she can charge you $10,000 a presentation because it's worth it. *[I have no idea what she really charges, but let's just say.]*

Over time because she's generous, she writes books about it, she trains about it, etc., because she'd love to teach a man to fish. But the core of the business is, "Can I be a service business for this incredibly important thing that no one's ever paid to buy before?" She understands the vast majority of people will never hire her to do a presentation, which is fine with her. She just wants some people.

The answer to your question is not, "How do I persuade everyone to pay for this thing they're not used to paying for?"

It's, "How do I find the few people who are eager to pay for it?"

RAISING MONEY

Owning Your Channel

If we think about the worldview of the person who buys a TV ad, are they an innovator? Are they an early adopter about the format of TV advertising?

They're laggards. They're the least innovative people in the world. They buy 30 second slots. It's not their job to invent a new kind of TV commercial. The person who invents a new kind of TV commercial isn't in the room and you don't get to call on that person.

If you want to go talk to the person who is in charge of buying new TV commercials—there's like one person at Zenith who does this, and one person at DDBA, etc. who does it—that person will buy $100,000 worth as a test and they will never buy from you again because their job is to buy the new thing. You can't build a business on that.

What you've done is you've looked at this industry you're in that you really like, you've made a list of everything that's broken about it, and you're saying, "I'm going to fix the whole thing. This is how it should be."

But if you don't have $100 million, you can't get from here to there in a straight line. Instead, what you have to do is say, "What *one* asset can I build that I can afford to build? And once I build that asset, how can I take that to teach TV a lesson?"

Remember when Kevin Rose from Digg started that little TV show he had?—Digg is like that online service like Reddit. Kevin is not really a businessman, but he loves inventing new stuff. Because Digg was really popular, he started a TV show. It was an hour a week of him and his friend drinking beers and talking about the Internet. It had over 100,000 viewers every week. As you know of ratings, it would not have put it at the top, but not getting canceled off the cable network either. He was in charge of the whole thing. If he had stuck with it, he could have gone to a 500,000 viewers for a TV show he made for free where he was 100% in charge and every week he knew he could go straight to everybody.

If you had 500,000 viewers, you could start changing rules. Because when the phone rang and somebody said, "I want to sponsor your show Luke." You could say, "Great, but the ad's only four seconds long." You have something—a monopoly on the attention of these 500,000 people. See what I'm getting at?

The asset that underlies television has changed. It used to be the FCC gave you a channel. 2,4, 7, and 29 when I was growing up in Buffalo—that's it. If you had the channel, you made money. If you didn't have the channel, you didn't have a channel.

Then cable came along and said instead of three channels in a community, there's a 175. Some people like Ted Turner totally understood this. Ted is a billionaire for one reason. He said, "I'll take as many channels as I can get." That's it.

Whereas ABC and CBS said, “We don’t understand cable. We’re threatened by it. We won’t do very much at all other than ESPN and one or two others.” That’s why they didn’t grab channels. Ted saw an asset up for grabs and he grabbed it.

The Long Tail

Now cable is going away. There aren’t 150 channels, there’s a 150 million channels—the long tail.

What we know is that there are hits—that if I look at book sales, TV shows, video rentals, etc., this is top ten, that these are sales of the next ten, and pretty quickly the sales go to really low numbers for each title.

Back when there were only 12 radio stations in a town, you only got to listen to those. The long tail didn’t exist because they said, “Jamaican polka music, we’re not going to put that on the air.” This is called the short head. This is Hitsville—American top 40, the New York Times bestseller list, and the people who are watching the number one shows.

Then they invent the Internet and the Internet says, “We have an unlimited amount of inventory.”

If I look at the sales of Barnes and Nobles versus Amazon, what I see is that Amazon gets half their sales in dollars from books that Barnes and Nobles has never carried.

iTunes gets half their revenue from music that has never once been sold in a store.

Netflix gets their half their viewers for stuff that has never been in a Blockbuster. Half, for this whole section here, the long tail, that’s half.

What we’re seeing with TV is they just opened up YouTube, Netflix, iTunes and other things—“This real estate, it’s for sale, who wants it?” Some people like Netflix say, “I do,” and they take all of it. That’s how you make money on the long tail.

Amazon says, “I will sell every book and that’s not enough, anyone who wants to put it on the Kindle, fine.” So now the tail goes out there. Most Kindle titles have sold one copy because you can make a Kindle title for free. You read it. No one ever else will because it’s way out here on the long tail. Amazon doesn’t care because they own all of it.

YouTube owns all of it. When you say you want to make a TV channel, I worry because I say, “Are you trying to go up against people who are desperate to maintain their spot on the short head? Or is he talking about owning a tiny slice of the long-tail?”

You can make money owning a tiny slice of the long-tail *if* that slice is the Annals of the Biomedical Neurosurgeon Association—100 people watching your video, but the pharmaceutical company will pay you a million dollars a month to sponsor you.

That's very different than Garden Tractor monthly which is a video that gets seen by 10 farmers and you're never going to make a penny.

The scarce thing is attention and trust. If you built a channel that had attention and trust, everything else will take care of itself. Now you have to decide what's the best way to go from nothing to attention and trust?

The easiest way to do it is understanding the long-tail does not reward mass culture. It rewards indispensable micro culture.

If you've made a channel about tattoos, people who are into tattoos could not live without you.

If you make a channel that is sort of a variation of the Jersey Shore, we've got lots of alternatives. You can't possibly crowd our attention and grab it.

The secret is,

> **"How do I get to a micro group that is eager to hear from me and will either pay me with attention or money and do it in a way that keeps me afloat enough so I can do it again, again and again?"**

Once you have 1,000 channels, each of which is watched regularly by 100,000 people, and you have one hundred million with duplication viewership, suddenly you've done something really interesting.

Now, you can dictate to producers what kind of shows you want and to advertisers what kind of ads you want to run because you did the hard part. You've found viewers.

Laying the Foundation

What you want to do when you're asking someone for actual advice as opposed to just approval is you want to expose the weakest part of what you're doing and say it as clearly as you can.

Back to the architect in the building.

If you're going to bring in a structural engineer and say, "Is this building going to withstand an earthquake," you want to do it before you put up all the bricks and before you paint the drywall. Because the structural engineer doesn't care about how fancy you painted the drywall. They don't care about you're excuses about why you're using this kind of timber instead of that kind of timber. You need to say, "That joint over there, I'm really worried about this, can that joint be better?"

It's only in the early stages of architecting your business that you get to have these conversations because otherwise you've invested too much and you're going to say, "Don't look at that. That'll be fine."

Be as clear as you can when you're talking to us and say, "This is my business. This is my goal. This is my timeline. This is the money I have. And this is why it's going to work," and layout the foundational structure of it.

Not why you're doing it. I don't care why you're doing it. I care why I want to buy it. I care why I want to be part of it.

> **Everyone is selfish. Even the people who like you are selfish because they like liking you. That's why they're rooting for you, not because they're actually rooting for you, but because rooting for you make *them* feel good.**

We just have to keep coming back to that.

Raising Money

The other thing that I need to talk about is raising money.

Anyone who is going to invest in you would like the money back. The question is, how are you going to give them the money back? And there are only a few choices.

The most popular choice is you give that person stock in your company. Generally, it means they own part of your company. Well if they own part of your company, how are they going to get the money back? The only way is for you to sell it.

A traditional investment deal, the Silicon Valley type thing, means you've already promised you're going to sell your company as fast as you can. If that's not your goal, don't raise money that way. If you do, there's going to be this friction that's going to start really soon. The investor is getting graded on, "How soon does she bring money back" and you are saying, "I want to do this for the rest of my life, I'm never selling this company." Someone is going to wind up unhappy.

The other way to pay people back, particularly if you're not some fancy Silicon Valley company is you go to the investor and say, "Look I'm putting on a show (the show can be whatever, it can be a traditional kind of show or it could be a coffee shop) and for the first six months all the profits are yours, but after that, the amount of profits I give you go down until I've paid you back all your money plus this much.

So you own a piece of it, but then over time the piece gets lower and lower because I'm paying you back via the proceeds."

Let's say before Kickstarter you wanted to rent the Tarrytown Music Hall and put on ballet performance. The theater cost $6,000 to rent. The ballerinas get paid $3,000. So you need $9,000. You go to the investor and say, "Give me the $9,000 to put on this show and the first $18,000 in the door is yours and then we're even."

If you end up making $50,000, you get to keep the rest. And if you make $16,000, he gets back his $16,000. He didn't get the full $18,000. You get zero, but it didn't cost you anything either. So you're selling future cash flow from this thing that you are building.

A bank is never going to do that deal, but your mother-in-law might and it completely eliminates all that weird family friction of, "Well they're still my partner and I'm never going to be able to get rid of them."

I hate to say it, but

> **One of the goals when you're raising money is to get rid of the person who gave you the money.**

If you want a partner, get a partner. But if you want an investor, part of the goal is to not have the investor anymore so you get to decide where you're going.

Does the Tribe Trust You?

In business-to-business selling, the tribe is rarely about the corporation. It's about the person in that slot.

Chief financial officers are often part of a tribe. They read the gap standards. They want to argue about Sarbanes Oxley. They wear the same kind of clothes. They go to similar trade shows and they recognize each other. They have stuff in common that resonates with them. They're not as integrated as the Grateful Dead tribe. They're not as easy to guess what they're going to be like, but they're really close.

The kind of person you are telling me about though is the early adopter CMO. That person really is part of a tribe. They're reading Ad Week together. They're reading my blog. They're doing stuff that you can see they're in sync.

You can say, "If someone is not in the tribe that still has that job, I'm not going to make the sale to them." That's the key part—figuring out what anchors you say in the beginning to make sure the two of you are on the same team.

I used to go on sales calls back in the early Internet days. You dressed a certain way, you mention a certain kind of person, you talked about something in the first five minutes, and it quickly became clear either that person knew who John Battelle was or they didn't.

That sync is critical because then you can say, “In your case studies, when *this* person did it they got this. And when *this* person did it, they got this.” And they either know those people or they know of those people and they respect their work.

When Warren Buffet goes to China, he’s a rock star. He’s bigger than Mick Jagger because among a certain kind of entrepreneur/capitalist in China, Warren Buffet is the king. That means if you’re trying to make a pitch to one of those people and you say, “Warren Buffet is one of our investors,” you’ve just eliminated the trust problem.

You have to figure out, how do I do that? How do I create the story so that when I say it people trust me?

There’s a new iPhone app called Lua. When I tell you what it does, you’re going to say, “This is the most obvious thing the world, I can’t believe nobody ever invented it.” It’s an iPhone app for very expensive live events like movie production and trade shows. You get every person on a team who is putting on the event using it.

If it’s a Batman movie, which cost a quarter of a billion dollars to make, everyone on the movie has this app. With one button the guy in charge of costuming can press it and alert everyone on the costume team instantly of a change. And with one button the script supervisor can push a new version of the script to everyone who needs to see it. It coordinates all of that.

Well you look at the app and you say, “This is sort of cool.” Then they say, “Oh and by the way, the new Batman movie was made with it. And this movie was made with it. And here’s a picture of them making this movie with it. And Strauss Zelnick, who’s been in the movie business for 20 years, is on our board.”

Suddenly everyone in the tribe says, “I’m in!” You’ve eliminated all the risk.

“If they made Batman with it, with a movie that cost that much, what are we discussing? Where do I pay? It’s $10 a seat? Fine.”

It cost the Lua team a year of their lives to get Batman to take that thing on as their case study. It’s worth more than that. It’s worth way more than any other way they could have spent the money to run ads in Variety or to do whatever. They realized that that was the hard part of this product, not making the software. Again it’s not that hard.

The hard part is, “How do I make it so that people I need to sell to instantly trust that we’re going to solve their problem.”

Pick Yourself and Put on a Show

Woody Allen tells an old, old story in the sixties. He stands on stage and said, “My first job was scalping low numbers at the deli.” If you’re not from New York, you don’t get the joke. You can grab a number at the deli anytime you want. If you hang around long enough someone was going to come over and pay you money to jump the line. It doesn't cost anything at all to go to Zabars and grab a number and hang out for a little while.

What I'm trying to dill home is there's all these low numbers that are available. You don't need to wait for a miracle to happen. You just have to grab a few and present them in the right way.

If you figure out how to run a team tour in Manhattan for children of foreign travelers so that you could take their teenagers away for a few hours

AND it's good.

AND you advertise it on Craigslist, which is free.

AND the people who come like meeting each other.

AND these teenagers when they friend each other on Facebook, because they had such a great time with you for three hours, tell their friends back home.

AND it's growing and growing.

AND these teenagers wind up building this community amongst themselves because they still connect with that person from Chile and that person from Japan.

You just built a cash flow positive business with no investment in a week. And you're only 17 years old. That's the level of barrier removal that has just happened.

When I started my first business when I was 14 without a permission slip from my parents, violating who knows how many laws, and then another one, it was really hard. It was really hard to persuade a bus company to rent me two busses and then persuade the ski area to let me have a ski club, etc. Now it's not hard and none of you are 17.

The challenge here is to figure out how you can get past the stuff that's hanging you up—the work you've already done, which you need to discard some of it, and the work you're using to distract yourself instead of the part that's actually difficult. Those are the things I need to hear from you about. Those are things we need to explore. Because there are no shortage of opportunities in your space.

> **Connect. Start tomorrow. All you need is e-mail. The whole world is waiting to connect with you if you choose to say, "I'm going to put on this show."**

As impresarios, what we do is we rent a theater, we get an opera singer, we sell tickets, and the show happens. We need you to put on a show.

The show doesn't need to be digital. The show could be in person. The show could be that a whole bunch of people hanging out by the river on July 4th and you go buy $300 worth of ice cream sandwiches and sell them for $700 and then you go home. But it's a show. You made something happen that wasn't happening before you got there.

It should be a show where you care about the customer and the work you're going to do. Because you're going to need to commit to it even when it's not working.

Focus on the Hard Part

I have a million ideas for you and most of them are bad. I don't know the difference between the good ones and the bad ones. But I know what they have in common and want to keep putting them in front of you so you understand that there are parts you ought to focus on that matter.

I don't know if any of you had the chocolate covered bananas, but I shouldn't tell you about them because you'll steal them. *[Aren't they delicious? Michelle's eating one right now.]* I want to talk about the chocolate banana she's eating.

Don, the guy who makes them, I think that's what it says on the box, spent a lot of time figuring out how to make a vegan chocolate covered frozen banana. And he figured out how to get them to the supermarket without melting. None of which is hard. All off which is doable if you have enough money. Hire a frozen banana expert; hire a transportation expert, problem solved.

What's hard is getting incredibly expensive shelf space in the supermarket so when you want to buy chocolate covered bananas you can find them. Hard is getting the people in this room, none of which had a chocolate covered frozen banana before today, to know about chocolate bananas. Those are the only two hard parts.

And he has spent all his time figuring out how to make chocolate bananas which is easy. So we got to figure out how to focus your time on the story and the mechanics.

What you're on the hook for is your first attempt to do what I've been doing up here for hours: tell us a story.

Tell us a story that matches our worldview—whether it's our real worldview or the one you want us to imagine having. Say, "Pretend you were this; here's my story."

Tell us what it is you're going to build, why it's important, why you're the one to build it, and why it's likely to work.

Tell us, what's scarce? What's hard? Tell us why it's extremely important that this happen and it happen now.

If you can't do that, then don't do your project tomorrow. Do a project you make up tonight. And it will become your project.

But this act of being able to look people in the eye and say, “This is what we’re going to do,” is hard. And you can get better at it.

$100,000 Speakers

There’s this magazine I get because it’s so amusing and because it’s a great example of all of this. The magazine is called The Absolute Sound and it has 100,000 subscribers. They are a tribe. There are only two magazines that go to this tribe, this and one by their competitor. Each one is always this thick and it’s filled with articles and ads.

So this is an ad I opened to at random. This is from Bob Carver. He’s famous to the tribe because he invented some very important stereo amplifiers 20 years ago. He retired and then he came back with this. This amplifier cost $8,000 and it’s made with tubes that are 40 years old.

Very few people on earth want to buy this amplifier. That’s fine with him because all of them read this magazine or the other magazine. And this ad cost $3,000. If he sells one he comes out ahead.

Bob’s business is very simple. He says, “I’m really smart. I know how to make a better amplifier.”

Yeah. Fine. It’s true, but not important.

What’s important is Bob Carver has a reputation. Bob Carver has our trust because he’s made good stuff in the past and Bob Carver has a story to tell us. And he tells the story in words, pictures, and on his website. It is not for everyone. It is for a few people in the tribe.

Some of the people in the tribe are actually friends with other people in the tribe. When they get this, they’re early adopters. When they get this they’re going to invite over all their friends to listen to it. And they will repeat Bob’s story to them the best that they can.

So for example, you can remove the tubes and replace them with Chinese tubes, Russian tubes, or tubes from Syracuse New York and they all sound just a little different. Why is this important?

It’s not because we need our Bob Dylan to sound a little different, but because the act of changing the tubes is fun. And the act of talking about it is more fun still because it makes us un-lonely and gives us a chance to connect with people in our tribe.

That’s Bob’s story, which is totally different than this company’s story.

This company does $100 million in sales selling speakers that cost between $20,000-$100,000 a pair. That’s for two, so you have to divide by two. The people who buy these speakers buy them for two reasons. One, they’re wicked loud. And two, it's from this company. This company cannot be criticized because they're the biggest at doing what they do.

So if you're insecure and you invite people over and they say, "Boy those are butt ugly speakers." The first thing you do is turn them up really loud because they're not stereophiles. They just want hear that it's loud.

The second thing you do is you say, "It's from Wilson. As you know they're the biggest in the industry. I must know what I'm talking about." Totally different story told to the same tribe.

Moving on to a couple other examples.

Some of the things that are sold, like this guy right here, he sells these amplifiers. The reason that people will buy them is because every big city has one or two dealers who have a showroom where you can go listen to this stuff and he's in almost all of them.

What he has that's scarce is a relationship with all the dealers. The dealers trust him. He trusts the dealers. He gives them half the money in exchange for being in their listening room. All of which is a way to do that thing he needs to do to tell a story to a certain part of the tribe, which is, "I want to listen to my stuff before I buy it, and I want to buy it from a dealer I trust."

His thing doesn't have to sound as good or as interesting as Bob Carvers. It merely needs to look the right way, be priced the right way, and go through the right channel. He's willing to pay for that privilege.

And the last example I'll give you is toward the back. You'll see ads for stuff where they have spent zero to get dealers. For these guys at the bottom of the ad it says, "If you call us, we will come to your house and play you this. This amplifier cost $175,000."

Instead of giving half the money to the dealer and not sell any, because they really wouldn't—how many people are going to want to buy this without being pushed—they're going direct to people using this vehicle—the magazine—to reach just certain people in the tribe. They're going to fail because if someone is going to tell the story of this to someone else, the only story their going to tell is how expensive it is, which is not necessarily a good way to grow your business.

The point is, there are 10,000 tribes in America like this one. Not to buy products that are this insanely expensive, but that are eager to connect around something.

The person who's making the most on a daily basis is the person who runs the show where you can go in a given city, running them twice a year, and 10,000 people in the tribe all come. They're not making anything except connections.

They're saying, "How many of these 10,000 people come to the Waldorf Astoria, spend two days meeting all the manufacturers, meeting each other, and listening—

that’s worth $100. 10,000 times $100 equals a million dollars. Right? Do that in three or four cities—that’s a business.

All of which is a way of saying, if you want to stand up here and tell the story of one of those businesses the way I did, you could do that. And you could do it without fear or criticism and you could accurately report based on what I just told you what they do.

But when it’s *your* project, it’s harder. You’re too close to it, don’t want it to fail, and don’t want people to tell you you’re a fraud. So you’ll erect all these barriers and softeners between the story we need to hear and the story you’re going to tell us.

So tomorrow what I want you to tell us is the story.

You’re an actor.

You’re playing a role.

And the role is to persuade us that you’re right. Or if you’re not right, to give us a chance to explain to you how you could do it better.

ADVERTISING AND COMPETITION

Nail Your Vision

Remember we talked in hockey knowing what to do, be willing to get hit, and doing it really well. The doing it really well—being able to skate better than other people—is a key part of hockey. It's worth getting good at it, but not unless you know where to skate and be willing to get hit along the way.

There is a whole bunch of useful technologies that help entrepreneurs execute and help them do it faster and cheaper. Some people are using them as crutches doing nothing but that stuff even though they have no idea where they're going because they're hiding. So it's really important we start by making sure you nailed your vision.

Making sure you've decided, "On this date in Chicago, 240 people are going to pay $1000 to come to my 3 day conference."

If we agree on that, then we can talk about a whole bunch of cool tools and techniques you can use to go make that happen.

Q: So what I'm hearing you say is that there's no shortage of great ideas, just a shortage of people who are willing to put their reputation on the line and execute.

Yeah. There are an infinite number of great ideas.

Just go down the list and look of all the people who heard of Y Combinator. Take whichever idea you want, because you're better than them. Go down the list of businesses that opened locally in Wisconsin and open one of them in Ohio. The people in Ohio don't know that business is in Wisconsin. They're out there all over.

One of the mistakes though is you get into kite boarding and you decide, "I want to run a kite boarding business." There's a difference between the things you do for fun and whether it's a good business.

> **What I learned a long time ago is it's more fun to work on a business that's working than to work on a failing business in an industry you like. Because failing businesses really suck.**

That's why I'm pushing now to do the uncomfortable work of picking a better structure.

In Madagascar there are these guys who have a chocolate business where they pay the farmers to grow the chocolate and then they put it in wrappers and bring it to sell it here. Their heart is totally in the right place, but they're not executing on the chocolate part of the business in a way to make the business successful enough to actually fulfill their dreams.

It's so easy to get hung up on, "This crop of cocoa beans is no good, blah, blah, blah." That's the easy part. The hard part is getting someone to pay $5 for a chocolate bar. If you got enough of that, you can solve you're bean problem.

I'm going to keep pushing back to, "Who is the customer and why are they going to give you money?"

Macro vs. Micro

It's very important to understand the difference between macro and micro.

I don't know if any of you have ever seen these before…this is a record album. Vinyl sales are 10 times bigger than they were 10 years ago. Clearly the industry is dead. Clearly vinyl is not important. *But,* if you're the number one seller of vinyl records in America, you're doing fine.

I think we can agree publishing is gone forever never to return. But, the pockets are going to be better than ever for the next 20 years because the people who are left in it care deeply. They're not just tourists. They're in.

And those kinds of people are way more likely to pay to be connected, way more likely to pay to be informed, and way more likely to learn what they don't know, because they're in.

You don't need everybody, especially at the scale we're talking about for the kind of stuff we're talking about. You just need the passionate few. So don't worry about macro at all.

Advertising

When I was starting Yoyodyne, I used to have to go to meetings explaining e-mail was going to be popular one day—that one day lots of people would have e-mail. But investors we're thinking macro, which was stupid. What they needed to say was, "Will Proctor and Gamble pay you $400,000 to advertise." That's all. Because as long as we could do that every month, we're going to be fine.

The real question is what do I think about selling advertising?

People who do not want to know if it works purchase most advertising.

Big companies and their ad agencies buy most advertising. And if it doesn't work you have to tell your boss you bought an ad that didn't work.

That's why they like TV ads more than they like banner ads. No one can say a TV ad failed. With a banner ad you have to say no one clicked on the link. Not true for small businesses, not true for owned and operated businesses, but totally true for big companies.

Q: Except you didn't say digital advertising took off because after 9/11 a brand manager could say, "I spent this much, I'm not doing print anymore because I can't measure it, but check it out, on the Internet I spent this much and got this many click throughs and it actually worked like we expected.

I know. I was there. *But,* no big brands, not one, did that. The people who did were direct marketers, the dancing monkeys, the LL Beans—the people whose click was worth something.

But if you're a Loreal, if you're anybody who's in a brand business as opposed to a direct response business, you don't know what a click is worth. Click through was this proxy that you made a good banner ad, but it wasn't "I'll come for 5 times as many."

When Google sells those little ads, most of them are not for big famous brands. They're for owned and operated small businesses or direct marketers who know how to measure. All of which is a way to say that if you want to sell a display ad in an e-mail to Kraft, you don't go to Kraft and say, "Buy this because the open rate is 8% and we're going to get a lot of people to click on it." That's not the way Kraft buys ads.

What you do is what Groupon did. You go to local bakeries and pizza places and count how many people who come in with a coupon. That's a totally different transaction.

When you think about selling an ad in an e-mail, you really have to sell it to people who measure the result, not the people who measure the clicks on the way to the result.

If you sent an e-mail to beer lovers every week with the beer of the week and where to go drink it, you could just go to a bar and say, "Don't worry about our open rate, don't worry about our click through, just count how many people come and buy a beer from you after we run the ad. We'll run the first one for free, but then you're going to pay for the second one."

If it works, of course he's going to pay for the second one because he made a lot of money. That's what I would say. I wouldn't go in with some fancy story about open rate because that's not really what makes brands buy ads.

Q: Not so much they lead with that, but 25-year-old media clients would buy media and they would say we actually need to have you on the chart. You know, "we're getting this much click through rates from this…

Correct. And that is a false objection and I'd love to spend a couple minutes on it.

Most of the time when you are making a sale, you'll be confronted with false objections. A false objection is the reason they give you to go away because they're afraid to say yes.

“Oh it doesn’t come in yellow, I can’t buy a car that’s not in yellow.” Well actually you’re going to wind up buying a car that’s not yellow. You just threw that out there so I would go away.

In the case of selling advertising, which I’ve been selling my whole life, the false objections are unbelievable what they come up with—especially media buyers who don’t want to admit they have no authority. They’re just collecting data. What they end up buying is what their boss wants.

When I was at Yahoo, the front page of Yahoo was sold out a year and a half in advance, even though the front page of Yahoo didn’t work. But the boss wanted an ad that was the equivalent of the Super Bowl—the front page of Yahoo. And then you’d go, “blah, blah, blah, what’s the clickthrough rate.” Well you’re just looking for a reason to say no, not a reason to say yes.

We see this over and over again. Now it’s going to happen with Twitter. People buy these ads on Twitter, not because they work, but because they’re visible enough in their little business community that they can brag about the fact that they were on this spot at Twitter.

It’s changing slowly, but it’s not changing fast. When it really changes, the ad industry is going to collapse because this irrational ego buying fuels it all. It’s not fueled by ads that actually work.

Q: But what about a measurement that actually does work?

Ads that work for direct marketers are bought to infinity.

In your catalogue when you pay $1 you make $2, you go to the post office and say, “I’d like to mail this to every human being on the planet.” As long as you’re making more than it costs, you just buy an infinite number of them. The number of times that happens is very, very, very tiny because it doesn’t work. That’s not how advertising works.

The head of advertising at Mercedes Benz said, “If all I did was run an ad the day before you were ready to buy a luxury car, I’d never sell another Mercedes. I have to start showing you Mercedes ads when you are 4-years-old so that when you’re 36 you buy a Mercedes.”

He can’t measure the click through on Mercedes. It doesn’t matter. What matters is when you’re 36 you trust that a Mercedes isn’t going to let you down. The reason you trust is because for 32 years you’ve been seeing ads for Mercedes. That’s what drives real big ad spends.

When I was selling to Amazon in the old days, Jeff Bezos said to everyone on the staff, “You can buy as many new customers as you want for $33 each or less. If someone is willing to run a campaign that gets us a new customer, meaning even if they bought something for $1 for $20, buy infinity. And if it’s $36, buy zero.”

That's the way they did it. They lost money as much as they could afford for 3 years by buying customers for less than $33 each until they got to whatever it was, 50 million customers. And he did the math right. If he'd been wrong, they would have gone bankrupt.

Competitors

I love that we're starting with this competitor thing, which is a really good clue about what's going on in the marketplace.

If we think about your competitor, let's pretend there's one, I would wonder, and I could imagine this by Googling their name:

How many people are talking about them?

How many people are interacting with them?

Does this company have 1 employee? 50 employees? 500 employees?

Can I find people who buy from them who love them?

Can I find people who buy from them who are really unhappy that they have to buy from them?

Because what's magic here is someone drops something into the pond and there's all these ripples. You can look at the ripples and the ripples will tell you how big the rock was. The ripples will tell you how deep the pond was. You're not the first one who's jumping in. You can then make some guesses there about whether they have completely satisfied the market or just touched the tip of the iceberg.

You can buy stuff from them and find out what sort of interactions happen in follow up. And you said they're building a community, so you can go into their community and say:

How many people are in their community?

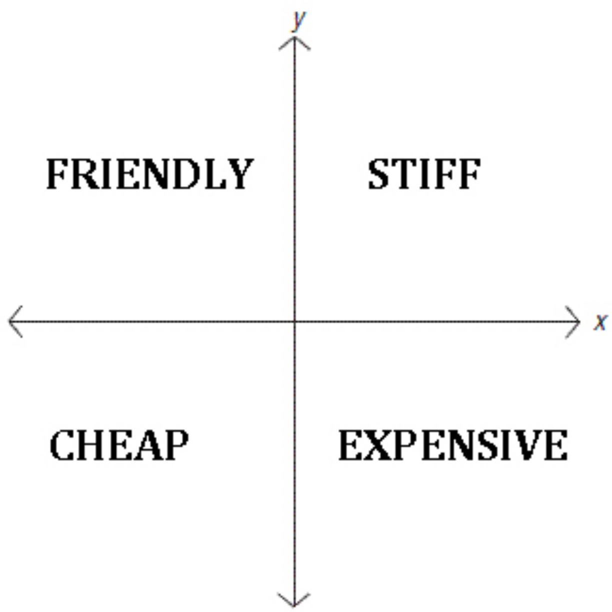
Do they come back every day? Do they come back never?

What's the velocity of the interactions here?

It's like knocking over a hornet's nest. If just a couple hornets fly out, probably not a lot is going on. But if there's this extraordinary buzzing, you've learned that you might be on to something. Then I'd say, "What's wrong with these people? What do they want to own that I can't own and vice versa?"

Picking Edges

One of the things I love is the NBA X-Y axis thing, where you draw a grid like this and on this access is one attribute and on this access is another one. One model could be friendly versus stiff. And another model could be expensive versus cheap.



You could say we're going to be the cheap and friendly business and these guys have decided they're going to be the Teutonic expensive, take it or leave it thing.

You can put whatever you want on these two axis. But whatever you pick, you should be in a different corner than the people you want to compete with.

If you look in "Free Prize Inside," I listed a hundred choices of what you could be: disposable, green, permanent, expensive, fast, slow—there's all these things at the extreme.

You have British Airways first class in one corner; Southwest Airlines coach in a different corner. You can figure that out.

You start by saying, "Is this a vibrant community?"

And two, "Have they put themselves in a quadrant where they can't move, so we can go to the other quadrant and say to everyone, "We're just like them, but we are blank." And if it's vibrant enough, a certain number will come see you.

There are two kinds of markets. There is a market that's big enough that you can afford to waste some samples. And there's a market that's so small you can't.

If it's a big market, you pick up the phone. You see if you can get a meeting. You go on a sales call even if you don't have anything to sell and you say, "We know you buy this kind of product. This is going to be our product line. Would you like to be one of our customers?" And if they throw you because your completely blank, blank, blank (crazy, too expensive, etc), you just learned something.

But if there are only three companies in the whole market that you can sell to, you can't afford to do that because you only get a first chance to make a first impression. In that case you have to be a little more adjoint at who you're going to meet with and understand their pain.

What you're going to understand, what everyone here can learn, is if you reach out to somebody and say, "I love this industry. I want to understand where your pain is so I can help you solve your problem," lots of people are eager to tell you what their problem is. And they're probably not going to tell you the real problem. You have to guess based on what they say.

People went to Henry Ford and said, "We want better buggy whips." They didn't say, "Make us a car for $700." You're going to have to listen and diagnose from that what they really need.

The last part is the worldview of the purchaser.

In the medical device industry the purchaser has unlimited money and an enormous need for security, safety, and deniability. That's a totally different company than a company that says, "Oh you make toys for a living, lets have a phone call and maybe I'll send you something."

You're going to have to build an organization that matches the mindset of the people you want to sell to.

Take the Marshmallow

There's a study that was done 30 years ago and the way the study worked is they took 3-year-olds, which they probably couldn't do today, and put them in a room with a marshmallow. You may have heard about this.

They said to them, "Here's a marshmallow. If it's still here when I come back in five minutes, I'll give you two marshmallows you can eat. But if it's not here, if you eat it, you don't get any more marshmallows."

Five minutes is a really long time when you're 3-years-old in a room by yourself with a marshmallow and there's a video of this.

One kid I saw takes the marshmallow and eats stuff out of the inside of the marshmallow and heals it back together. I don't want that kid to be my accountant. There was a girl just licking it a little bit.

What they found is 15%-20% of the kids don't eat the marshmallow

The fascinating thing about this simple study is they followed these kids 30 years later and the kids who didn't eat the marshmallow have better marriages, did better on their SATs, went to more famous colleges, and get paid more money—statistically significant.

Now one lesson they would like you to learn from this is that putting off satisfaction for five minutes is a trait that pays off in the long run. But that's not why I told you the story.

I told the story because what I hope you took away from yesterday is: there are all these marshmallows. Take the marshmallow.

You don't have to eat it, but if you don't sign up for the study, you don't get any marshmallows at all. Take the marshmallow.

Don't hold yourself back. Don't say to yourself, "Well I'm not qualified for a marshmallow or I probably won't get any marshmallows or it's someone else's turn to get the marshmallow." Just take the marshmallow.

This revolution isn't going to last very long and you're in the right place at the right time for once.

MAKING IDEAS TRAVEL

Anchoring Your Idea

Ideas are like riders and they need a horse to get to us. You're idea can be terrific, but if you can't connect it to a medium for which it to travel, nothing happens.

If we think of viruses, viruses need to spread on a sneeze, a handshake, or some other form of transmission and the idea of that virus gets to the next person.

So we need to talk about:

A. Is your idea a good one? Does it hold up strategically?

B. What are you connecting it to, to allow it to travel?

If I asked you to describe in just a word what 7up is, it's the uncola. If you've ever had a Coke, you know what 7up is even if you've never had one before.

That's the work of Trout and Ries. They wrote years ago "Positioning." They say one way to inject an idea into someone's head is to find someone else who's already in their head and hang something next to it. Because if someone else is still there, we're just like the Catholic Church except we don't the have statues on the walls.

If you understand what the Catholic Church is, you understand what Martin Luther was doing. You can work your way through lots and lots of ideas that over time they've built their own structure in people's heads by connecting to somebody else's.

So you get up and you have an idea. I don't know enough about it yet to tell you if it's a good idea, but two minutes in you mention Angie's list. Anyone who knows about Angie's list and sees your slide says, "Wow that's a lot like Angie's list."

You have to make an assumption in the beginning. Does your investor/customer know about Angie's list or not? If they do, you can't make it go away so you might as well acknowledge it.

You can spend 30 seconds telling us how great Angie's list is, how big they are, how much money they make, they're a publicly traded company, blah, blah, blah. Then you can say, that's all great, now we already get it because they've spent millions and millions of dollars teaching us what Angie's list is and then you say, "here's why we're better—boom, boom, boom."

Now every time I think about Angie's list, the irritating problems, structural problems, or the model you pointed out comes with it.

We are Angie's list, but we are free.

We are like Angie's list, but we are friendlier to the contractor so we're going to get more of them.

We're like Angie's list, but we have a book that's going to be distributed like the yellow pages for people who don't want to look people up on the computer.

By constantly coming back to reposition against the market leader, you're doing guerilla jiu jitsu. It gives you way more throw weight to get your idea in my head. When you talk about it, that's an opportunity.

The alternative is to do what Google did. Google for three years never mentioned Yahoo, never mentioned Excite. They said, "We are sui generis, we have are own thing, we are not like them, and here's why."

The problem with that is it takes a lot longer and costs a lot more money. The good news of it is you get to build your own thing.

Apple never said in the beginning, "We're just like Microsoft, but without blank."

But when they started doing the "I'm a mac, I'm a PC ads," they really hooked into it. They said, "Alright you already know what a PC is. We're going to differentiate ourselves over and over and over again." They just took all the money that was spent on PCs and went over here.

If I was going to teach people what your business is—I would spend one minute, that's all it would take me to go like that—and then I could spend four minutes proving it was true and important. Because it's not clear that your advantages are important, but you can make that case.

When I go to market, the other thing I need to hear from you is,"

Which part of this is going to be hard for you?

Is it going to be hard to get contracts?

Is it going to be hard to get consumers who's paying?

Those elements become very important because focusing on the hard part is key. You're screenshots are beautiful, but that's not the hard part. So we have to figure out what the hard part is.

[Intentionally inaudible company name] you've already identified what the hard part is. You said, "I don't know how to make the combination of my story and my whiteboard resonate with people." But you can use not very much money to find out.

You can give him $1,000 and 10 articles from the Harvard Business Review and if he can't come up with something, fire him and find someone who can. That's the only thing we need to see for the first three minutes of your presentation. "Let me teach you how they fix Best Buy. Slide, slide, slide. Let me teach you, slide, slide, slide." Then you say, "Do you want more of these?"

When someone stands up to talk about how great their music label is, they don't talk about polycarbonate. They play you some tracks. So play us some tracks. We don't need to see the stuff because we're already identifying as the recipient of what you want to say.

It's Not About the Technology

The second half, again back to the carrier of the idea, is I wouldn't spend a penny on technology. Not one penny. I would sign up with Mailchimp and I would send out an html e-mail to your list. That's the technology. That's all you need to carry an idea.

The problem with the web is people have to remember to go back to your website and they won't.

The problem with the web is people are looking at websites to be beauty pageants.

The problem with the web is its hard to share a website with someone else.

Whereas, if you send me an e-mail my expectations are really low because e-mail's ugly. You're e-mail's not ugly. And I don't have to go get your e-mail. It's home delivery. Newspapers would go out of business if they didn't have home delivery. You're bringing it to me. It's beautiful and I can forward it to everyone I know.

Stop worrying about technology and figure out how to make one of these that's compelling enough that I want another one. If you can't, there's nothing here and you should just go on to the next thing.

Tell us Important News, not Breaking News

In a world of instant breaking news, you're not going to be "breaking news." All you have to sell is you're "important news," and do it in a way that I want to share it. That's a creative breakthrough that you have to do.

There are people with the taste like Terry who say, "No, that's not going to fly, but what if you did this or what if you did that?"

And Mark, you're certainly one with the industry. You talk the same language and stuff. That's critically important. What I said yesterday about numbers is not that numbers don't matter. What I said is the story of numbers is what they care about, not the numbers themselves.

For Traffic Jam to work, the story the CMO tells the boss is what they're buying from you. If that story has numbers in it, so much the better. But you're here to tell us a story and that's what we're buying from you.

So when you're approaching someone, we already know the first four and half minutes of your presentation. You could do that in one slide. "Ok, we all feel the same pain" and now you say, "I'm going to tell you a story that you're going to be able to brag about to your employees, to your coworkers, and to your boss." And the story is, "Money spent here is smarter than money spent there," and then we want details. We don't want to hear about all the failures because we know them. We want to hear about your successes or the promise of success.

Why Should I Care about Your Business?

Let's talk about the single's bar problem. The single's bar problem is if anyone actually knew how caring, compassionate and smart you were, you'd have absolutely no trouble at getting a date. But no one cares enough to get that deep, so it all becomes very shallow.

And you're driving up the train on the Hudson River looking out the window and you see something. You're not going to go back and go there later. So when you're talking to somebody about what you're doing, you have to dispense with how you got there and why it's important to you and all these things.

You have to say, "I'm on a date. I have 10 seconds to make a first impression. I have 30 seconds to make a second impression and then maybe there'll be enough interest to go to the next level."

If you do it with a series of questions, you discover that you can open doors to find out what people are interested in. The reason that's scary is because at any time the person can answer the question the wrong way and then it's over.

What we do is, because we're afraid we'll get rejected at question number three, we never get to question number three. We just add these other non-deniable layers.

What I'm pushing each of you to do is get rejected early and discover what led to it being rejected.

> **Your business has a problem which is no one's using it today.**

What would you have to say to somebody in 20 words or less that would make them eager to use it?

Eager to pay attention or eager to pay money, which is really valuable?

What do you say to a person to get them to say, "Yeah I want to know more?" And you have to start with that.

The difference between Instagram and an app that isn't popular is Instagram only works if I tell my friends. If you build a social connection into this, your head start is sufficient because why would someone switch to the other one? If there isn't a social component, you don't have anything and you should go build something else.

Big Companies and the Sales Cycle

Now I want to talk a little bit about the Fortune 1000.

Fortune 1000 companies are bigger than most nations. CEOs are like royalty. The closer you get to the center of an organization that big, the harder it is to make a sale. The people who have those jobs are getting paid $750,000 a year—$10,000-$50,000 a week. Their main goal is to not get fired.

When you bring innovation to someone who's main goal is to not get fired, all they're thinking is, "Will this get me fired? The scarier it is, the more sales people it touches, the more impact it's going to have on revenue, the more likely it is it's going to get me fired."

At the edges of these countries—these companies—if you want to sell the Tampa office six Dell computers and you run enough calls, someone's going to buy six Dell computers from you for the little regional office.

But if you want to go to the Chief Sales Officer of a big company and say, "I want you to buy 15,000 devices," all she's thinking about is, "This better not screw up."

If you look at the people who sell to those companies, those organizations have 50, 100, 500 salespeople who do nothing but go to meeting after meeting after meeting and working their way through the system because there's a huge payout at the end.

The term we use here is sales cycle. How long does it take from the first day to the last day?

The sales cycle in the iTunes store is two minutes. A two minute cycle from, "I read it on Tech Crunch, I bought it." The sales cycle to get a sales force with 1,000 salespeople to do this is a year.

Either you're someone like Salesforce.com where Mark has literally probably a 1,000 salespeople who are trying to break open these big, big, big companies. Or you're bootstrapping the way you are. Well, this one new company is enough to keep you happy for 5 years.

So what you do is sit down with your tiny division and you say, "Draw me an organization chart and who can you introduce me to." And you spend all your time there.

When I used to work with Kinkos I was amazed after you walked in and crossed reception, the first office on your right, Xerox, had an office inside. Xerox was such an important client that if you needed anything from them, you didn't have to fly to Rochester. You just walked to the Xerox office inside Kinko's headquarters.

Well, that's sufficient for you that you say, "I'm going to have a full time sales person who does nothing but call on this one company." You're never going to run out of people. And if your overhead is small enough, that's sufficient. You're just this internal thing at $10 a seat. You just keeping adding seats per month. You're thrilled.

Selling to Friends vs. Strangers

The point I'm trying to make is there's a huge difference between selling to strangers and selling to friends.

The vibe I'm getting from *[intentionally inaudible company name]* is he's going to sell to friends—that there are people in the music industry who know him, who know his reputation, who doesn't have to spend a bunch of time credentialing him. You don't have to get credentialed to sell to these people.

But if you try to cross the street and sell to someone new, a whole bunch of things in the way you staff your organization have to change.

One of the dangers that every one of you face from what I'm hearing is you've all established credibility, respect, and authority with the people you've worked with in the past. Now you're ready to go to a bigger, wider world and the giant challenge is a lot of that stuff—you're winning strategy, the strategy that got you where you are today—doesn't carry a lot of water when you go talk to strangers.

> **You have to decide going forward are you eager to talk to strangers or friends?**

I made the decision four years ago that I was no longer going to write for strangers. I no longer want any new readers and I'm not going to dumb down my covers, writing, and my titles to make new people want to read me. I don't want to do what Malcolm [Gladwell] has done so brilliantly which is anyone can pick it up and say, "Oh this is sort of for me." I am plenty happy with the people I have. I don't need anybody else.

That changes the kind of outreach I do. It changes the decisions I make, what kind of promotions I do, and where should I do it.

If I'm not racing to get new people, if I just want to keep the existing people happy, it's going to transform what you do. So we all need to think about that.

What Are You in it For?

How many of you read Bob Lefsetz's e-mail three times a week? Just one of us.

Bob Lefsetz has been in the music business for 25 years and he writes the most uncensored, off the top of his head e-mail newsletter about anything and I read it all the time. And so you will learn a lot reading Bob. He rants basically.

When I was sitting with Bob whining about he didn't make enough money, because all the heads of all the music businesses listen to him, I said, "Bob is that why you do this? Because if you're goal is to make money, this is a dumb way to do it—to just rant and burn every bridge you can in an e-mail newsletter that has no advertisers. That's just not a good business model."

What's clear is that's not why he does it. He does it because he likes it when he walks into any room with music people, everyone goes, "There's Bob Lefsetz." And when he has a fight with Taylor Swift and Taylor Swift writes a song about him, he's going to wear that on his sleeve for years. That's what he's in it for and he's not unhappy about it because *that's what he's in it for.*

You have to figure out what are you in it for?

Maybe what you want to do is have an e-mail newsletter that gets read only by 100 people where you go on at length about whatever insight you have. Then you make you're living doing something you're good at making a living at. They don't have to be the same thing. They could be the same industry, but they don't have to be the same thing. If those 100 people are the right 100 people, you're never going to look for a job again anyway because they're going to see how smart you are.

> **What you figure out first is, does money *have* to go next to you when you're acting the way you want to act?**

Because if you separate the two, you can be more true to yourself in both places. But if you're going to match them up, you need to find customers who want you to be you.

Bob Lefsetz's brand is, "You should only hire me to come in if you want me to tell the unvarnished truth and you're going to fire me when I go, but you're still going to pay $10,000 for the privilege." Bob only does that nine times a year, but that's enough. He's fine.

That could be the path you decide to go down. A lot of people end up really unhappy because they keep trying to force their "I'm right" on people who don't want to hear "right."

You can be smart and say, "I don't want to talk to *those* people. I want to talk to the people who want to hear what I have to say." You just have to chart the path that matches that.

This is what I chose to do. I was at Yahoo and I could have stayed there. I could've had Marissa's [Mayer] job. I would've hated every minute of it because in order to do those things—to be a public company, have a board of directors, and have thousands of employees—you have to act a certain way to be good at it. I don't want to act that way so I went to do something else.

You have to think hard. Look at other people who are living certain kinds of lives and what's the value transaction?

All of you have that same opportunity to say,

> **"If I'm going to do the work I want to do, I better do it in a place where they want me to do it."**

COMPROMISING

The two questions that keep coming up over and over again for about half of you are an overlap between: Whatever I'm doing, will it work? And, is this what I'm supposed to do? And they are completely unrelated.

We don't know if it's going to work. We can talk about if it's likely to work. We can talk about whether we can make it work better. But we don't know. We can't promise it's going to work.

What we really can get to the heart of is:

Just because other people have been in many cities doesn't mean you have to be.

Just because other people are dealing with sunburned tourists, doesn't mean you have to.

Just because other people have 200 employees and have a lot of debt, doesn't mean you have to.

This can only come from you which is, is it what you want?

If you could have whatever it is you want in your day, wherever it is your selling, whatever it is you're building, whatever it is ROAM [company] is doing, is that what you want? Then let's have a concrete conversation about what compromises you're going to have to make to make it work.

When I hear you [founder of ROAM] talking, what I hear and see makes your eyes light up is that an intelligent tourist comes to the city you love, engages with it in a different way, and comes away changed. And when that happens you are thrilled. And that when someone who might even pay you more money comes with their screaming kids and wants to sit on the beach and drink Mexican beer, you rather not take the money.

Then you think about all these branches in all these other cities, where you don't even get to be, just so more money comes in and you can get another article written about you. I don't see your eyes light up either.

I just want you, all of you, to just give up on this thing, "Will it make that person happy? Will my mother-in-law be happy? Will Seth be happy?" It doesn't matter. You're going to make some compromises whatever you build. Is this one worth compromising for?

What I'm hearing is if ROAM reaches the level where you feel it's just the right scale in Miami with the right people respecting you and reaching out to you, that's where you want to be.

Now, will it work?

The first thing I would say is understand that the cost, the price of something, doesn't have anything to do with what it cost to make.

Chanel number 5 cost $5,000 a gallon, and HP Printer Toner Cartridge costs $10,000 a gallon. *To buy*. But to make, it costs a nickel.

There's this huge disconnect because the value you get from buying Chanel number 5, if you're someone who likes to buy it, is extremely high. They have a monopoly on Chanel number 5. If you want to buy it, that's what it costs and the price is ok because it tells you something about how much you're worth.

A ROAM tour might cost the same amount to deliver as a double-decker bus tour, but that doesn't mean it delivers the same value. It doesn't mean the person who's getting it feels it ought to be priced the same. It may be that a double-decker bus tour cost $20 per person for three hours and yours cost $250 per person for three hours. A lot of people are going to say, "that's ridiculous," which is great. You don't want them anyway.

Then we say, "How do we make it so you can have enough customers paying the price that would identify them properly?"

The answer is, what's your channel?

Clearly USA Today is not your channel. Someone who reads USA Today or even the Times don't go from there to booking a reservation, flying to Miami, and hiring you. It's good for building the brand in the long run, but it's not a customer acquisition tool.

What's Your Feeder Channel?

There's this crab restaurant in New York City. I don't know if it's still in business, but it was always full. My friend from Maryland would take us there every couple years. They had paper on the tables and they brought us those horrible hard crabs with all that salt on them. You had to hit them with a hammer and you'd be there for hours and eat an ounce of crab. It was always full.

We looked around and realized 90% of the people in the restaurant were Japanese. This place is famous in Japan because the guy who ran it spent I don't know how many hours courting the people who write guidebooks in Japan pretending this was the most famous restaurant in New York. So all these tourists are walking in with their little books to eat real New York City crab and no one in New York ever heard of the place. He had this feeder channel.

So you have to say, "What's my feeder channel?"

Maybe your feeder channel is that there are 20 corporations that regularly bring executives into town with their families for whatever reason and you figure out how to say, "When they do this, they are safer, happier, better educated, and more respected then if you just send them on their own for three hours."

You invest the time to find just a few places where you are doing something that earns their respect and over time these feeds build on one another until you have this stability that would make you a lot happier. Instead of like running around trying to do whatever the market needs today, you've earned this asset.

Best in the World

You have to say, "Which kind of web development are we going to become the best in the world at?" In the Dip, I wrote about Google is cruel in that when someone does a search, only the top one is the top one. If you're seen as the best in the world at something, then the gigs come to you.

If you talk to someone about, "I own a dozen books in a series and I want to sell them all around the world. Who's the best in the world at that?" Terry's name will come up because she's earned the right.

Now if you say, "I'm looking for someone to do consulting on tax abatement on my bowling alley," you're not going to hear about Terry. She doesn't do that even though she used to be a lawyer. That's not her thing. You have to pick the thing and you're in.

Campfire marshmallows are the best in the world at being marshmallows, but they're not a dessert. They're in a category all by themselves. You don't want to try to go after campfire marshmallows because what could you possibly do to defeat campfire marshmallows 50 years in the business that we all grew up with?

So you have to pick an industry—Medicine, people who are doing tourism sites, whatever.

Do one so beautifully that you get a recommendation and then you can brag about it and say, "We specialize in this. There is no one better than us at doing this."

If Tim wanted to build this thing and you were the best in the world at building social media apps and I knew that, I'd tell them immediately. Because I look good when I do that. You're job, because you're not the programmer, is to decide what you're not going to do and what you're going to do so that once you know what you're going to do, do it beautifully, get the references, etc. it starts to build.

The Freelancer's Book of Trust

A little aside here for those of you who are freelancers and something I wish I had done earlier.

Every time you get a gig you need to say to the person, "For the first three or four times at the end of the gig, will you write me a letter of recommendation?"

Then you need to laminate it and put it in a notebook. From then on, every time you go out to get a new gig you take out the notebook in the beginning and you say, “These are the last three gigs I did. I’m hoping when I’m done working with you, you’ll write a letter to go into the book too.”

50 gigs later when the book is thick and there are 50 restaurants who talk about how they saved the day and it’s listed on your website and in the book, you don’t need to ask anymore. They just keep adding up and adding up and adding up.

It’s so overwhelming to show this to somebody, for them to see page after page—it’s Disney, it’s United Airlines, it’s this person and this person. Once it looks like it’s bottomless, it might as well be. Then there are no more doubts. You’ve completely eliminated the one thing that’s keeping you from being hired.

What’s in the Box?

A lot of us get really hung up on not just the importance of the work we’re doing, but also how hard it is to do it well that there’s a lot of underlying technology, a lot of underlying research, and this is important, blah blah.

It’s way easier to say, “There’s something in this box. The thing in this box solves this problem. If I can show you that the thing in the box solves this problem, are you prepared to pay?” If the answer to that question is no, you can save everybody a whole bunch of time.

Most HR people are not prepared to buy what you have in the box. “You don’t have to tell me how much you worked on the box. You don’t have to tell me about other corporations that have decided that what’s in the box is important. Because I’m the HR person and all I’m trying to do is please my boss. My boss has never shown an indication that she cares what’s in the box. So don’t try to persuade me that it’s important because my boss doesn’t think it’s important.”

To become evangelical, which is what Tony Hsieh has decided to do with the last year of his life, is to try to persuade bosses to tell their HR people to make it important. But when you are talking to the HR person, all you care about is, “Does your boss think this is important? Yes or no? If your boss thinks it’s important, I have it in this box. I can prove it works, but first we have to decide is this something you’d like to buy.”

The simplest restaurant example is if you look in New York City the people who own Per Se, Gramercy Tavern, and Union Square Café. They are spending zero time persuading tourists that they would enjoy spending $100 for dinner. Zero time.

There is nobody standing in front saying, “I know you were thinking about going to Applebee’s, but come on here, it’s really worth $100.”

They don’t do that. They wait for someone who’s already decided that a $100 dinner is what’s on their list. And then they try to explain to you why their $100 dinner is worth more than those people’s $100. But there’s no category-shifting going on.

The Story of Charity

The first thing I want to talk about is charity. Charity is like price. It's a story more than it's actual something.

At the Acumen fund, after the real estate crash certain donors dried up. They said, "Well I used to be worth $200 million dollars and now I'm worth $100 million dollars, so I won't be able to make a donation this year."

You just think about that and say that has nothing to do with reality. You couldn't spend $100 million dollars if you were still alive even if you bought a private jet every year. You just can't. It's not that you're going to run out of money. It's that in your head you've told yourself a story about your ability to be generous.

The vast majority of people in the United States give zero dollars a year to charity not counting their church. Zero. And we're the most generous nation on earth.

The reason is not because people can't afford it. It's that they say to themselves, "Well if I give $30 that must mean it's important which means I ought to give $50, which means going out to dinner can't possibly make sense because instead of going out to dinner I should just give that money. I should just do everything until I give the maximum amount if it's important." So it's easier to just make it zero and not think of it. "This little hole in the boat I rather not have open."

One of the tricks you're going to have to deal with in dealing with charity is the story people tell themselves.

The reason people go to a Gala and waste all that money on bad chicken is because they're not really buying a donation to charity. They're buying an evening out with their social circle. The charity just calls it charity because that's the only way they can think of to make money. You're trying to do something more pure than that, but you have to realize how allergic people are to it.

On Squidoo the default setting is all your royalties go to charity. When we started it was 80% of the people kept it that way. You have to click two buttons to change it to: "no I want the money." The average person gets $1 or $2 a month. That's all that is at stake here.

80% of the people have now switched it to, "I want the money," just for $2 a month and it breaks my heart.

I started the whole thing—I worked on it for 7 years—so that number would be 80% or 90% and it's 20%. And I can't change it. Everything I try it won't change.

People get real hung up on charity and they get real hung up on money. That's the thing I need to say first.

Working for Free

I have never once met someone who said, “Too many people know my ideas. I am too connected. The tribe holds me in so much esteem I can’t make a living.” Never once.

I never once met someone who said, “So many people read my free eBook, I can’t make a living.”

The challenge for all of you is gain more respect, gain a bigger tribe, and make more connections. Then I guarantee you if do that enough, you’ll never have trouble making a living.

If we look at Shepard Fairey, Shepard Fairey went to jail 30 times, gave his art away relentlessly, and now he can sell a canvas for $100,000. Why?

Because he’s Shepard Fairey. He didn’t used to be *Shepard Fairey.* He used to be Shepard Fairey, but now he’s *Sherpard Fairey.* How did he get to be *Sherpard Fairey?*

He can show you a slide show of the things. He was in Exit Through the Gift Shop, blah, blah, blah. He didn’t get paid to do any of those things. But they gave him a credential so the person who does want to pay, who wants to hire a famous graffiti artist, can pick him.

For example, if you want to make it as a copywriter and you write copy for 15 websites that go viral and you do it all for free, then someone’s going to see those, particularly if you highlight them on your website. Then you can say, “I’m the most expensive copywriter there is, but look at some of my work.”

That’s way better then saying, “Look I haven’t done any work.”

The actual customer who takes you for free is never going to want to pay you because the reason they picked you is you were free.

Begin with the Hard Parts

I learned how to cold call. I learned how to make sales calls. I was thrown out of meetings, physically. I had computers start on fire in the middle of presentations. I got rejected 900 times by the publishing industry. None of that was fun. But that was not eating the marshmallow.

The people I went to business school with, who thought I was crazy for going out on my own at 26, ate the marshmallow and took the job at McKinsey or took the job at wherever and made a lot of money for 10 years and then they were miserable because now they’re stuck.

And so the question I would ask is, “At which point does the job become the thing that really engages you and what compromises and prices are you willing to pay along the way? How do you front load the hardest stuff?”

You do the hard hard stuff in the beginning when you have less to lose. You can confront the fear in the beginning when you have less to lose. If you front-load it, everyday after that it gets easier and easier.

On the other hand, if you do the stuff you like in the beginning and you deal with the errands, clear the table, and have all the ducks in a row, seven months from now you have to do the hard stuff and now its really hard to do the hard stuff because all these expectations have been set.

For me I said I usually close 1 out of 20 sales. Since I need 10 sales to make this work, I need to go on 200 sales calls. And every time I got a "NO," that was a good check mark because I was one "NO" closer to being done with my 200 sales calls.

If your goal in three months is to be X, what are the habits that you want to create in the next 90 days of stuff that's hard that might not work, that's scary, that embarrasses you?

Once in you're in the habit of doing those things and it starts to pay off, then the 90-day goal is way closer.

TACTICS

There's a building on the Harvard campus called Cruft Hall where they invented the basis for radio and radar. In the 1900s-1920s Cruft Hall was the physics building. In the 1930s and 1940s, physicists kept leaving all their stuff stacked up in the windows. Rooms became filled with junk that was left over from pre-technology days. Eventually the physicists moved to the building next door with Cruft Hall filled to the brim with old radar tubes and everything else.

The term "cruft "is now used by programmers to describe left over code, left over junk, that you're not using anymore that's clogging up the system.

It took us a couple days to get rid of some of the cruft about intent and where you want it go and how you wanted to build what you were doing. Now we can get right into very specific things that are going to help you move in the direction you want to go.

Before you start, I want to repeat what I said Monday morning, which seems like six weeks ago, which is: starting a business is being like an architect.

You get to decide what land you're going to put it on.

You get to decide how many windows you're going to have.

You get to decide what you're going to build it out of.

You get to decide whether you want to be on Boardwalk or Mediterranean.

You get to decide whether you're going to invest five houses and then owe the bank or if you're going to bootstrap the thing.

It's completely up to you.

So if the deck is stacked against the business you want to do, know that going in because you don't have to do the business you're going to do. The project is up to you.

I hope today, hearing that again in it's condensed version, it sounds different then it did just two days ago because it should. Because it took us a while to take it apart and restack it back together.

The rest of my agenda today includes tactics.

If you want to talk about business plans, spreadsheets, getting meetings, marketing tips or techniques, getting your idea out there, making a ruckus, we can do very quick detailed conversations about any of those things.

Once you realize you have something of value to bring to the table, the way you architect it, the way you talk about it, and the way you make choices will have a dramatic impact on whether your good stuff gets to the world.

Everyday two or three people send me a book and that's a lot of books for me to keep up on. Many of them are really, really good. They're better than anything I could ever write. And no one is ever going to read those books.

It's not because the books aren't good. We can agree that the books are good. It's because the person who wrote the book didn't look at the map and the terrain and understand how to get from the book to the reader.

They wrapped the book in the wrong cover, talked about the book in the wrong way, pushed the book up the wrong hill, and made the book the wrong length. They did all these things because they fell in love with this thing instead of embracing the fact that they had something to make an impact with.

So when I push back on Kelly, Christina, or other people, what I'm saying is this isn't about whether it's worthy. It's about how do you architect it so that people who don't know you, the way you know you, will get the point?

There's a podcast called WTF by a guy named Marc Maron, America's most neurotic Comedian, and it's free. There are too many hours of it for you to listen to all of it. Marc interviews other comedians for an hour-an hour and a half at a time.

And stand up comedy is the perfect storm of all of this. You're a stranger. The audience doesn't really know you. You have 4 minutes, 12 minutes, whatever, to make them laugh or fail. And you have to do it again tomorrow. When you hear what's going on inside these standup comics, it's exactly what's going on inside each one of you.

Then you see some comics figure out how to get through to people. There are 100 comics as funny as Jerry Seinfeld, but only Jerry Seinfeld is a billionaire comic. Only Jerry Seinfeld has put all these words into our vocabulary because he figured out how to market and bring to market the thing.

Whereas, the other guy is still playing at some Motel 6 in the middle of nowhere. That is the fork in the road.

So if I keep coming back to shipping it, interacting with the market place, and figuring it out, it's because if you get that part right everything else takes care of itself.

Business Plans

We're going to talk a little bit about business plans. The short version of a business plan is write down enough to make a sales call. You don't write down enough to raise money. You write down enough to make a sales call.

There's almost nothing you can't make a sales call for that requires your software to be working. That's what PowerPoint is for. You can assert that your software is working and then after the sales call works, you can say, "I was just kidding, keep your money." Fine, at least you made a sales call.

> **Until you figure out how to be in front of somebody actually asking them for money or the equivalent of money that you need to—putting their name on your website as a partner, whatever it is—you don't have a business. You don't even have a business plan. You just have a dream. Big difference.**

When I think about Don's business, the way the yellow pages became a multi-billion dollar company is this: There was a partnership between AT&T and RR Donnelley. RR Donnelley prints lots of stuff. They know how to cut down trees to make yellow page books and AT&T figured out how to sell ads in the yellow pages. How do you sell ads in the yellow pages? Here's how you do it.

Pizza is the biggest category in the whole yellow pages almost everywhere. The salesman goes into the pizza place. 99 times out of 100 you don't get to meet the owner. This is a big problem in your industry, lots of industries. The persistent salesperson explains what he wants to do is give this business a free ad in the yellow pages and install a free telephone in the pizza place—a second phone, a yellow phone. Sometimes it was red, sometimes it was black, and sometimes it was yellow. This was 50 years ago. And the pizza guys says finally, "Sure. Why not."

What they do is run a little ad in the yellow pages, but the phone number in the ad is for the other phone. After a few weeks this phone is the one that keeps ringing.

Then the guy comes back from the yellow pages and says, "I'm here to take out the phone," and the pizza guy goes, "No, no, no. How much do I have to pay you to keep the phone?"

So the ads keep getting bigger, bigger, and bigger because this is all the pizza guy cares about—this yellow phone rings.

The question I would ask if I was going to invest in Don's business is, "How many painters have agreed to pay $771 to buy this page from you?"

Because if they have, we're in great shape. You don't even need to raise my money because they already paid you. If they haven't, I'm like, "I don't want to give you money to build software or print things until you show me painters who are giving you cash."

Hiring

Several of you have asked about hiring. This may not work for all of you and it certainly does not work for every job. Here's the way I've been the happiest with it.

You can't work for me until you've worked for me. I'll hire freelancers. I'll hire people to do project work. I will work with people and then I'll offer them a job.

That means the vast majority of the workforce is not available to you. The vast majority of the workforce will not come to work for you for two months as a temporary COO because they have a day job. That's ok because in exchange you get to have the best job interview in the world—you're actually working with somebody. That's how you find out if they can do it.

The other part of this, which almost everybody under invests in with the exception of IDEO and a few other people, is if your business is built around people, really and truly, then you are almost certainly under investing the time you're spending prospecting for people.

The big book that I sold on Kickstarter is finished and it's at the printer now. It's 800 pages and it's unbelievable. Part of the reason it's unbelievable is because I partnered with Alex Miles Younger who worked with me on the Domino Project as an expensive six-month intern. And I hired seven of these people, many of whom weren't totally productive in the setting they were in. But it's all paid for itself because I get to work with Alex.

When you think about the funnel, the funnel also works with people you work with. If you're really running a people business, and I use IDEO as an example—all IDEO, a design firm, has is people.

Part of their model is how do we spend more time interviewing? How do we spend more time going through resumes? How do we spend more time having interns? How do we spend more time trying people out?

If they spend more time on this than all of their competitors, they will have better people. And if all they have to sell is people…

And then you run into a law firm and all they're whining about is their prospects. Well yeah, but you only spent 15 minutes hiring this class of lawyers! Why are you surprised that your firm is like every other firm. You didn't invest in it.

Again we're back to the tactics that make your dream into a business.

Pricing

The price isn't the price. The price can change. What you do is you charge and if you want to charge more, *you charge more*. If you want to charge less, *you charge less.* You're going to have to make the people who came in before happy, so that's probably why you want to raise the price, not lower it, but figure it out.

The giant roadblock in pricing is now a penny. There's a chasm between zero and a penny. Once someone pays a penny, they might as well pay $10. And once someone pays $10, they might as well pay $50. The drop off is not significant. And that's the distinction.

A blog is free and anything more than a penny isn't free. You're going to have to experiment with what gets someone over that hump. In certain spaces like the venture capital world it's really easy to get a venture capitalist to go from a free newsletter to a paid newsletter. It's not his money. He expenses it. He doesn't care.

It's really hard to get someone who's been listening to Grateful Dead concerts their whole life for free to turn around and buy a Grateful Dead concert for $6. Because if there's an infinite number of the same item, their mindset is, a different part of their brain has to agree to pay.

Herkie Herkimer and Setting the Groundwork

I have to talk about cheerleading for one minute. Here's the thing; one guy invented it. Herkie Herkimer—listen to this—he invented the pom pom, he invented the moves. And the way he profited is because he was the content creator. He started a chain of camps that still exist to this day and a magazine. His heirs make millions of dollars a year.

At the camp they'll teach all the moves so that at the competition three months later, that's going to be the move of the year. You can't be a successful cheerleader without paying taxes to Herkie Herkimer.

What I love about this is the idea of establishing the protocol and laying the groundwork. In every industry you can do this in.

There's a group that establishes what color your appliances will be in four years. GE and all the other competitors can't afford to be wrong about what color refrigerators to make. They have to be in sync. The way they do it is there's a guy in the middle of a small group, they all pay a fortune, and he sends out a memo, "Avocado green four years from now. Here's the palette…" and they all make the same color.

Dancing on the Edge of Failure

I think there's a reason it's hard to scale. I don't think there are many answers here. I think largely there is one. And this is what the Icraus Deception is about.

I think the purpose for just about everybody when they feel like they have achieved their purpose has nothing to do with to play the guitar, to pave the street, to run a kid's shelter. None of that's in our DNA. I think it's a dance on the edge of failure.

I think when people are dancing on the edge of failure and they're growing and there's a void over there, but they keep moving forward, that's when we feel alive as people.

There are a few people who don't have that. It's been boiled out of them or raised out them or whatever, but generally it's getting close to the precipice that I think is ingrained in who we are as people.

Industrialist for 100 years brainwashed us into not believing that because they don't want you to do that. They want you to need them. If you need them, you'll work for cheap. And if you need them, you'll comply and they'll be able to make more money. Now the industrial age is ending and all these opportunities are showing up in front of us. So, we're calling everybody's bluff.

When you talk in the persuasive way that you have, lots of people sign up for the linked-in group, but then they are safe to quit because it's easier to quit then it is to stare down the abyss. It's easier to quit than to do that dance.

It took us 48-60 hours figuring out how to move to a new safety zone that's really uncomfortable. In fact, our purpose is finding a thing we didn't think was going to work an hour ago, but now it's working well enough that we can wonder what the next thing is and keep that cycle going. The magical ironic punch line is the Internet is making that easier than ever for 1.5 billion people.

I think the explosion we're about to see is not the explosion of industrial job creation. It's the explosion of people who figure out whether there is money involved or not money involved and how to do that scary thing, whatever that scary thing is.

Partnerships

A few times we heard about partners. Having had partners and having not had partners, I want to just riff on that for a couple minutes.

There are lots of people you can go out to drinks with. There are lots of people you can go bowling with. That doesn't mean you have to get married to those people. Partnership is the same thing.

I did a riff in the Bootstrappers Bible called "Ringo was the luckiest Beatle." There's this sense that if there are four Beatles, everyone ought to own 25% because there's four of them. There's this sense that if you meet somebody in the bar and the two of you are sketching out the business, you shake hands and you each own half. Fair is fair. And that's never a good idea.

A partner is a very special person.

I had one astounding partner in my career, the first project I really did. Steve and I complemented each other. We didn't reinforce one another; we complemented each other. We trusted each other and were both in at the same level of commitment.

For the two years we worked together we really made a ruckus. It was ideal because he was the guy who was going to go to Harvard Business School and did spreadsheets and went to difficult meetings and I was the guy who was going to go to Stanford Business School and I invented businesses and made flashy stuff happen. I wasn't jealous of him and he wasn't jealous of me. It worked. But that is rare.

What's far more likely is someone's perception of what needs to be done isn't the same as yours. Someone's understanding of cash isn't the same as yours. And if you have a 50/50 partnership, it's only going to take weeks or months before somebody is annoyed at the other person and before decisions don't go the way they need to. There are two problems that need to be solved here.

Problem number one is you need access to technical expertise. You need access to somebody who can program. Or you need programming when you design, design when you program, explain the legalities of 529s when you need them explained, etc.—for sure.

The other thing you need is you need someone to have your back, which is a totally different thing.

So you need to think hard when you get started, when the equity seems cheap, but in the long run is extremely valuable, what you're going to do before you take half of it and move it over here or 25% of it and move it over there.

The suggestion I have is as follows:

One, everyone including you earns the equity over time.

You say to somebody, "Great, I'm starting this business. I need you to work with me as my head of sales. The first 50 sales we make are the most important. I'm going to give you .1% of the company for every sale of the first 50 sales that gets made. If you lose interest after five people, we learned something and you end up with a tiny sliver of the company. But if you can really bring me all these sales you say you can bring me and 50 sales later this company is really valuable, well you earned it because over time you are earning your way in."

Two, figure out who has your back.

There's a difference between someone who has your back once a week on the phone and someone who has your back in the office everyday, all day long. It's a very tricky, psychodynamic, political problem that's not easy to solve.

For James Bond it was Money Penny. And Money Penny was on a government salary of $19,000 a year. She wasn't a partner in the secret service, but James knew that Money Penny was never going to let him down. You can have an office admin who's this person. That's fine.

There are people I worked with at Yoyodyne who were very junior, but I had history with them. I could sit down with them and tell what I was afraid of and what wasn't working. I knew it wasn't going to leave the room. It was better that I could do it with that person, with the tightrope I was on, rather than someone who was my partner partner. I wouldn't have felt comfortable sharing just how out on a limb I was.

What I'm imagining here is you're dividing these tasks up. You say, "I really need a brilliant graphic designer." But guess what, that graphic designer doesn't want to own half your company. If she did she would have already owned or co-founded something.

Maybe what she needs is plenty positive feedback, plenty of credit, and a regular paycheck because those are three things graphic designers rarely get. You don't necessarily give that person equity. You give equity to somebody who has cash and understands what equity is worth. Then give the cash to the graphic designer who values the cash more than they value the equity.

You have to be very deliberate about this because I know what it's like to be out in the wilderness when nobody believes in you. Finally, someone shows up and believes in you and you're so grateful, you just give them part of your company. Then you regret it because it's going to take your company seven years. That's how long it's going to take before you say "Pheww." That's how long it took Andrew Harper. Seven years.

The question is, seven years from now, is that person you gave 25% of the company going to be standing next to you helping you as much as they helped you then. That's what they're getting rewarded for. That's what is going to happen in seven years.

The Cap Table

Here's the way it works…

Every company has 100% to be owned. My company, I own 100% of it. When I owned Yoyodyne, the first day I owned 100% of it because it was the first day. Then someone comes in and says, "I'll give you $5 million dollars for 20% of the company."

That means they have valued the company at $25 million dollars. Because they get a fifth of it for $5 million dollars. You multiply by five—$25 million dollars gets you 20%.

Now the cap table is 20% to the guy who put in $5 million, 80% to Seth. So I own 80% of a company that's worth $25 million dollars, which is pretty cool.

As the cash gets spent the company might be worth more because you've spent the cash to increase value or it might be worth less because you squandered away the cash.

If you start hiring employees, those employees might want equity. You might give them stock up front or they might get stock options which grow over time.

In order to get equity, there needs to be more than 100% because I own 80% and the investor owns 20%. So what do we do?

We print more shares on a printing press.

Now I don't own 80%, I own 70% and the investor doesn't own 20%, they own 17%. The 13% that we we're diluted down is now in this new pile I can hand to other people.

The cap table is the list of who owns what percentage as time goes on. It keeps changing over time. When you read about these companies that raise $20, $40, $50 million dollars, how do they keep the cap table working?

They go to the founders, they go to the early people, and they give them stock options that they have to earn over the years. Even though they earned 100% of the company the first day, they're quickly down to like 20%. But they can earn back greater percentage over time by showing up, meeting goals, etc.

That's what I'm talking about. If you're playing at a higher stakes than just "I have this little business and I'm going to cut in my landlord for a part," what you'll find is you'll give yourself options. As the employees and other people are gaining shares, you're also gaining shares so that you're not completely diluting yourself as you go through that.

CASH FLOW

You certainly should start with the brain dumbest dummies book you can to make sure you understand the words. There's plenty of dummies books that will define the words of liquidation, preferred, dilution, and all those other things. You don't need big ideas. You just need to make sure that all these words are clear to you when you're talking to people.

Then beyond that, Steve Blank has probably written something that's useful about this (No Cashflow for Startups). Fred Wilson every Monday posts on his blog something that someone in your shoes needs to read. It's called MBA Monday where he describes this.

One of the examples I'll give you is, "How is it possible for a venture capitalist to put $20 million into a business at a $100 million valuation, and then the company sells for $50 million and the venture capitalist makes a profit? How can that be?"

Because he ought to only get $10 million back because it sold for half of what he valued it at. I mean anything else in the world, if you bought half a cow and valued the cow at $20 and the cow sold for $10, you'd get half as much money back.

Except the venture capitalist has a paragraph that says "We get paid first." Of the $50 million, we get $20 million *plus* a guaranteed return, then the entrepreneur gets the rest.

Sometimes you read about an entrepreneur who's crowing about this big exit. They only got a dollar because everyone else who came along is in front of them for how they split up the money.

You have to be very careful especially if you're dealing with dentists or other amateur investors about how all this is written. It's easy when everyone is excited, but at the end it can get really, really, really tricky because the investor might want to teach you a lesson and the investor will say, "Well I know you have an offer to sell this company, but here's what it says, so I rather the company goes out of business and you get nothing then me not get what's in writing."

That's why what you've heard me say for three days is get your customers to fund your business. Get your cash flow to fund your business.

When someone cares enough about your business that they pay you upfront for the first one just to make sure it gets built, you now have the money to build the next one. If you don't run out of cash, no one can tell you what to do.

Alignment

Here's the dilemma—when I was starting Yoyodyne we we're before the Internet. We were really early. Then the Internet showed up and I was 3-5 miles up the river and I needed to hire two people a week on an ongoing basis, the best people I could.

I wound up buying a full-page ad in the New York Times to get enough people coming for interviews. We would interview 50 people at a time in a big group setting. We really we're focused on getting good people.

Then they would sit down and I would say, "Ok we're cash poor because we're not in California. So here's your choice, you can either get $80,000 a year and just a tiny bit of equity or $60,000 a year and a bunch of equity." Every single person picked $80,000.

I'm an ebullient fairly positive guy and they still wanted the $80,000. They didn't to be my partner. When I sold the company to Yahoo for a whole pile of Yahoo stock, these people hated me because I somehow had not treated them fairly. Well yeah but they had a choice and picked $80,000; they didn't pick $60,000.

The interesting challenge when you say fairly is, what do they value apart of your company as? Part of it depends on where your offices are, what kind of person you're hiring, and the story they tell themselves about equity.

There are companies in New York now where people are taking $20,000 living on brown rice so they can have a huge chunk of stock. But that means their incredible focus is, "Let's sell this sucker." Because if you don't sell the company, you get nothing.

Is that the employee that you want? If that's your goal, that's the employee you want and everyone will align.

On the other hand, at Zappos the people who went to work for Zappos didn't get a lot of equity. People who went to work for Zappos got the ability and insistence that they do unbelievable customer service. That's what he hired for, that's what he rewarded for, that's what he paid for, and that's what people got. There was alignment.

That's the first thing I would say, you need to think about what do you want people to want and how do you tell a story about that?

That's why what we know about money is past a certain amount money is a de-motivator, it's not a motivator. Even commissioned sales people tend to perform better in alignment with their company when you get rid of their commissions. This is in Dan Pink's book Selling is Human.

We think people are motivated by money, but they rarely are. They're motivated by the story they tell themselves about money. It's a fundamentally different thing.

You then say to yourself,

"Well what are we trying to do here?

Are we trying to get cash flow positive and if so, are we going to reward people the day that happens?

What metric are we using and what's the reward that goes for it?"

The summer I co-ran my summer camp up in Canada it was bankrupt literally the year before and the granddaughter of the founder and I came in to fix it. The first thing I did was triple the price of the camp. The reason I did that was you're either going to send your kid to camp or you're not. If you're going to send your kid to camp, you tend to pick a camp based on how much it costs. And rich people want a camp that costs more because it's a signal that it's a good camp. Well I didn't care what kind of people sent their kids so I picked rich people. That act saved the camp. That was a storytelling thing.

Then we get all these 19-year-olds on our staff and the question you ask, the question you want the staff to think about is, "How does the staff decide if they've done a good job? How do they push themselves to be in alignment with you?"

What I said to them was, "A lot of people come here and stay for eight weeks, but more and more of the kids stay for four weeks. One way we can tell if we're doing a good job how many of the four week kids call their parents and insist they stay for eight week?"

So I sat the staff down, these are 19-year-olds, and I say, "Here's the deal. If more than nine kids (in previous years it was one) call their parents and insist on staying eight weeks, we're going to throw all 90 of you, the staff, a blowout five-hour party. We're going to have a giant rotisserie animal on a stick. A chef's going to come from Toronto. We're going to have pizza. This whole blowout. We're not going to talk about it everyday. I'm just telling you we're going to keep track of this."

It was like 18 kids decided to stay the whole summer. We were in alignment because there was nothing a counselor could do to get the kid to stay other than making sure the kid was happy. It's the only way you get a kid to stay. The performance of the staff went exactly in the direction we wanted.

We didn't say, "We'll give half the profit to you." You're 19-years-old. We said "We'll put an animal on a stick and you can spend all night eating it." And it worked. It worked all around. The staff enjoyed the process, it saved the camp, and the kids benefited.

So when you're saying what's fair, I think what's fair is generally sort of transparent but not completely. Because open-book management is really fraught with issues in a fast growing company. You have to make sure people understand equity the way you do and it's unbelievable how few do.

If we went to Yelp's or Foursquare's headquarters right now and we sat down with any employee and said, "How many shares do you own?" They would know. Then if we said, "How many shares does the company have?" They wouldn't know.

That's the only number that matters. Owning 10,000 shares is irrelevant if there's 100 million shares outstanding.

One of the very first things I did when we started hiring people after we raised money at Yoyodyne was I split the shares 100 for 1 so I had more shares to give out.

Then I would give lessons to people, I'd say, "This is how many shares there are. This is your percentage. This is what percentage matters."

It didn't matter.

People just like saying they own 10,000 shares as opposed to 100 shares. It didn't cost me anything more to add two zeros to the number of shares, but in their head that number is what mattered to them. I was incredibly transparent and taught classes about all this, but that's not what people think about when they do this.

All of those factors kick in when you think about what's fair, and how do we make a pool for these employees, percentages, and things like that. It just leads to all this de-motivation when what you really want is alignment.

Drawing a Line

Q: I'm wondering about personal financing your company and where you draw the line if you're funding it yourself?

Rule number one is you never put up your house. Don't laugh. This means you can't sign a personal guarantee on anything. "You want to rent this? Ok I'll rent this, but I'm not signing a personal guarantee on anything."

I have not signed a personal guarantee. I was bankrupt for eight years. I was this close from having to close down for eight years and I still never signed a personal guarantee for anything. That is a line I have chosen to never cross and I encourage everyone to do. The minute you do, suddenly there's a 3-year-old at home who's going to have to live on the street if you make a mistake. I just don't know how to take risks when that's at stake.

Then the advice that I give people is, if we're going to be intentional about this, you need to write down a number and a period of time.

The number, it can be as big a number as you want, is the maximum amount of money under any circumstances no matter what that you're willing to put in. And when you hit that number you can't put in another penny.

People hate this. They say, "But what if something blah, blah, blah." NO. There just has to be a number.

The second one is, "How much time before you give up?" And again, it can be 20 years. Fine. But you can't say, "19 years and 11 months into it, but wait there's one more deal that might come through."

You just have those two numbers because if those two numbers are in place and your spouse is aligned with it, you never have to worry about it again. It's off the table.

This whole situational thing, "I just need $2,000 more," that's lying to yourself. The discipline early on is so valuable because then you can spend 100% of your time focusing.

With Yoyodyne when we raised $5 million dollars, I thought that was more money than in the history of the world. Then the Internet boom took off and our competitors raised $40 million. Our competitors were selling our product for $0 and we couldn't sell it for $0. There was this huge disconnect between how much money we had and how much money we needed.

I spent the last nine months before we sold the company trying to raise money. In one day I went to three different states to do pitches. It was really draining, demoralizing, and had nothing to do with my business. If I had spent all that time actually building my business, I would have been better off.

So you raise more money than you think you need and you treat it like it's the last money you're ever going to have. It's way better than always wondering where that next nickel is going to come from.

Factoring

So here's the deal. You're a brilliant designer. You come up with an idea for a t-shirt. You go to Macys and you say to Macys, "I think you should sell this." It's January. They say, "We love it for our fall catalog, for our fall store. We're going to order 20,000 t-shirts." They give you a purchase order.

Now you have to go make 20,000 t-shirts. You figure out you can have them made in Italy, China, or wherever and the people who are going to make it say, "That will be $100,000 please."

You don't have $100,000 because Macy's isn't going to pay you until December, 90 days after they get the shirts. This is called a cash flow problem.

Your business is looking really good. You get to book the fact that you have an order, but you don't have cash. In fact you can go bankrupt from having too many orders.

So there's a business called factoring. What you do is you walk down to Thirty-third Street and show someone the piece of paper from Macys, an order for $200,000. He buys the piece of paper from you and gives you $160,000 in cash. It's now his job to go get that money from Macys when it's due. You take the $160,000, you pay the factor $100,000, and the money that's left over is your profit.

Interesting, you gave away almost half your profit to someone who only did five minutes worth of work. He solved your cash flow problem. See what that's about?

That's why a company like Amazon or Wal-Mart can grow so fast. Because Amazon and Wal-Mart does it opposite.

Wal-Mart says to Proctor & Gamble, "We'll take a million boxes of Tide," and Proctor & Gamble says, "Ok, you owe us $3 million dollars in 30 days." And Wal-Mart sells it in 3 days. So for 27 days they get to keep $3 million dollars to build new buildings, run new ads, whatever before they actually have to pay P&G.

The faster Amazon and Wal-Mart grows, the better their cash flow is because they get the money before they have to pay it. Whereas for most of you, you're going to have to pay the money before you get it.

That's why when you're choosing to build any business you want, you might as well build one where the cash flow is in your favor as opposed to one where the cash flow isn't in your favor. You might was well build one where the money comes in before you need to spend it given the choice.

How Many Days Can You Stay in Business?

When I was a struggling entrepreneur, I only kept track of one thing: how many days can I still stay in business.

If the number was getting too low, I would say, "I have to go do a project that's going to pay. I have to go to some freelance work. I have to go figure out how to sell a $50,000 book instead of spending all my time on a $500,000 book because I need the money."

When there was enough of a cushion I could say, "Now I can invest time in whether it's personal growth, etc." These Stanley Kaplan SAT books I did that got them into the book business took me five years to persuade Stanley Kaplan, the man, to say yes. For five years I was investing time on spec and got nothing. I would have to stop for a while to go sell a book, Buzzword Bingo, which we thought of on a Monday, sold on Wednesday, and got paid on Friday because that paid six weeks worth of rent.

THE DIP

I'm going to talk about "The Dip" for 10 minutes. How many have read it? Raise your hand. Wow, my publisher did not want to publish it. They only agreed to publish it if I would write a real book.

There are a couple things in this book that are misunderstood, so let me try to clarify, and for those of you who haven't read it catch you up.

In our society starting stuff is applauded.

When you say to your grandmother, "I'm pre-med," party will ensure.

When you join a gym you already feel healthier. All you did was sign a check.

When you tell people you're engaged, parties will ensure.

There's this sense that going down a new road is exciting. Clean paper in your notebook. Lot's of people start stuff and almost nobody finishes stuff.

Very few pre-meds end up becoming neurosurgeons. Half of all marriages end up in divorce. You can go down the list. There are lots of things we say we're going to do on a Wednesday afternoon that three months, four months, six months, or two years down the road we're not doing it anymore. Why?

If we look at the economics of the situation, it's this: the reason those outcomes are valuable is because they're scarce. There aren't a lot of neurosurgeons, which is why neurosurgeons get paid a lot. If everyone was a neurosurgeon, brain surgery would be cheap. But in fact there are few.

So how do we go from lots of people start businesses, lots of people start projects, lots of people open restaurants, etc, etc, to only a few come out at the other end?

Add to that what Google did. What Google did was they made it from hundreds of hundreds of people having hundreds of hundreds quiet individual conversations to one answer to most searches. "I need a copywriter who specializes in direct mail copy for pharmaceutical companies." There's one match, number one in Google, just one.

There's an interesting study a guy did, but I don't really know who to credit it to. You get a letter from a lawyer and what the lawyer says is, "I represent a client who recently passed away and left $5 million dollars. You get half of it if you find the other person who also gets half of it. If the two of you, strangers, find each other, you each get $2.5 million dollars. You need to find each other at noon on September 10th in Paris and you're not allowed to run any ads or do anything to actively find each other."

The question I would ask you is, what would you do to maximize the chances you met this other person at noon on September 10th?

The vast majority of people on the planet say I would go to the base of the Eiffel Tower. It turns out the base of the Eiffel Tower is the best in the world to the solution to this problem. And in New York City, if you ask people from New York, it's the clock at Grand Central Station.

You're making a face, is that where you would go?

Q: I'd go to the Empire State Building.

Interesting. The problem with the Empire State Building is there isn't a place at the Empire State Building. There are too many places to stand at the Empire State Building. I'm not saying it's right or wrong, I'm saying I happen to agree with both of them. The interesting thing is nobody says, "I would go to yonah schimmel knish's place." No one says, "I would go to Shake Shack." Everyone or most of the people pick one place.

When you are *the* place, when you are the Nike, Apple, Facebook examples that all business writers use every time; When you are the CrossFit, not the guy who's sort of like CrossFit; When you are seen as the best in the world, the benefits are outsized. You come out way ahead in trust, revenue, profitability, ability to make noise, and anything it is you seek to do if you are seen as the best in the world.

What does best in the world mean? It means world as in my world, the only little place I care about, not the wide wide world.

I was telling Don about the realtor down the street, he's the best in the world at selling residential houses in the 10706 zipcode. It's not the world world, it's my world.

Best doesn't mean the most expensive or the most supreme or the fanciest, it just means the one I will pick. The one I will pick for my budget. The one that I choose is the best because why would I pick anything other than my best option?

The goal in whatever we build is to be the best in the world at it and thanks to the Internet it's easier for it to be just one. The reason we can't all be the best in the world is because it's scarce and somewhere between the day we get excited and start and the end, we quit. So it's a book about quitting.

I have two things to say about quitting.

One, quitting is underrated. We quit things all the time. Most of you don't still take ballet lessons. Some people in this room when you were 4-years-old had a tutu. You don't have a tutu anymore. I hope. Along the way you quit ballet and you don't beat yourself up about it. That's just part of what it is to do things, you quit.

Two, the thing is we quit the wrong things at the wrong time.

We quit our workout schedule right before it's something that's about to become a habit and actually make us healthy.

We quit the marathon, not at mile 2 when everyone's cheering us on, but at mile 22, which is when everyone quits. If we just went a little further, we get all the benefits of finishing, but it's in that moment when we can't go on that we quit.

What I argue for is a really simple thing.

> **Don't start anything unless you've invested what it's going to take to finish it.**

I'm not talking about hobbies and stuff like that. I'm talking about projects. Don't start a project unless you're prepared to go to the end.

The start and end are tricky here.

I start writing 10 books a year. I mash around with them and I play around with them and I don't tell anyone about them. Then one day one of them is the next book. And I have never failed to finish a book once I've announced it's the next book.

There's all this thrashing that happens in the beginning that doesn't count. But the post thrash moment when you say, "Yes I'm going to do this."

> **You have a lifestyle, a practice that says, "When I make that announcement, I'm going to get through the dip. I know the dip is really hard, that's why I have chosen to do it."**

In your case Chris, the idea is not to say, "I am committing to having a sound thing." It's, "I'm going to stick with this—building an organization—until I do. There will be lots of detours and dead ends along the way, but that doesn't matter. I will deal with the hard part of getting through it because when I get on the other side it's worth it."

There are two kinds of projects. There are cul-de-sacs, dead ends, things that are never going to get better. This is the person who goes to work at Goldman Sachs as the receptionist and thinks they can work their way up to CEO. No actually you can't. There's no dip there, it's a dead end. There's nobody else that ever comes out the other end.

The way you know it's a dead end is has anyone ever done this before? Has anyone ever persisted their way through this in the way I am doing it?

Now you might be the first person who ever did it. You might be the first person who ever swam to Cuba. That's possible. But in general, it's way better to sign up for a path where you know there is an outcome.

There are 50-year-olds who have gone from the couch to finishing the Boston marathon. I know that if I do this day after day there's a chance. That's how you tell a cul-de-sac, a dead end, from the kind of work where there's a dip.

Once you are comfortable with this strategic quitting model you say, "It's not only ok, it's imperative that I quit everything I'm not prepared to push through the dip on."

You will quit early when it's cheap as opposed to quitting late when it's expensive.

If you're walking around knowing you have a quit card that you can use in the right moment, but the cost of it is you're never allowed to quit something in the wrong moment, you become that person who can stare down the thing that gets everyone else to quit. You'll become the type of person who is still in the gym in March because it's the people in the gym in March who are the ones getting fit. It's the ones who stop going in February that make all the money for the health club.

The same thing is true is when you're building any of these projects we've been talking about. You're talking about two, three, five, or seven-year processes. That's why the rest of this afternoon is so important because it's not a three-day thing you're doing or a two-week thing.

The first seven versions of the hostel are going to fail. People aren't going to sign up, the health department is going to shut you down, the landlord is going to screw you over, and something else isn't going to work. But you're going to learn every single time. And the ninth time you do it is when it's going to work, but if you quit at number seven, you're never going to know that.

That is what you need to be laying tracks for—to say, "I get the fact that it's not going to work, and it's not going to work, and it's not going to work and then maybe it'll work."

So please don't tell me the magic answer today. Tell me how to make sure my process is in place so I'm a learning organization; I'm not someone who had to get it right the first time.

Misunderstandings about the Dip

Q: You mention that people don't get, they often misinterpret the message; can you explain what their interpretation is?

Number one, they think best in the world means you have to be the fanciest, most expensive.

Number two, they think what I'm talking about when I say, "Best in the world," really is the best in the whole world, not in your tiny market.

This notion of Monopoly, again, is I understand that Atlantic Avenue is not the best property in Monopoly, but it might be *your* property. And if it's *your* property, that's good enough if you build a hotel there. You can still do just find because you're the best hotel in the world on Atlantic. The goal is to build that square just the right size so you can possess it.

Signing Up for the Whole Process

Q: One way that I coach people on being referable is that when they think of that thing they need to think of you as a integral particular activator. So when I think of a realtor in Hastings, I think of Mark. When I think of a realtor in Tulson, California, I think of Dave Chapman. So they're the best in the world in their community of excellent.

That's right.

If I was going to open up a real estate office, I would spend the first three years not doing what I see the real estate people around here doing which is balloons, those little folding metal signs they put on street corners, and making sure they have the right kind of Mercedes to drive the person to the house.

What I would spend my time doing is making sure that every community organization had it's meetings in my offices because I would have a big enough meeting room so they could meet there as often as they wanted. I'd figure out how to get on the school board. I'd figure out how to be the assistant coach of the football team. I'd figure out how to be this integral member of the community and not worry so much about whether or not I was selling a house tomorrow because there's a trust shortage. There isn't a not enough people know how to fill out forms shortage.

What we know from the National Association of Realtors is that more than 70% of people who list a house pick the realtor who calls them back first. So the goal is how do you get called first, not how do you prove that your yield on a percentage basis is better than everybody else's yield. And if you get enough listings, you're going to make money.

This is a multi-year process of owning a tiny market as opposed to running from one cool opportunity to another hoping you'll be done. It's about signing up for the whole process.

Q: What are some of things your recommend to people when they need to assess whether they care enough about being the best in the world to that?

I think people fool themselves into thinking they need to care about what it is they make.

I have done projects where what I make is the most important thing in the world to me and it's not about me. But most of the projects I've done are projects where the transaction, people, atmosphere and the way it makes us all feel is way more important to me than whether or not you want this particular widget or not.

My dad runs a hospital crib company with the biggest market share. 90% of the hospital cribs in the world are made in Buffalo, New York in a UAW organized metal bending painting factory that makes hospital cribs. My dad has never been in a hospital crib and hopefully never will. While it's important to him that nurses have this useful tool, it's way more important to him that his workforce feels the way they do, his customers feel the way they do, and that it's built in Buffalo, New York in a factory that's 100 years old, etc, etc.

Does he care about the people? Unbelievably.

Does he care about his clients? Enormously.

Does he care about that particular piece of steel? Not so much.

This is about how you put your work on the line, not yourself on the line, and what are you willing to do to speak up for your work? If that requires you failing along the way, then that's part of the cost. That's the people we see come out ahead almost every time. The people who are busy cutting corners and trying to close the sale tomorrow may win tomorrow, but they inevitably don't win in the long run.

Where is Your Fear?

Q: People tell themselves stories often to say it's about the widget when it's not about the widget. So Chris is very perceptive—its not about spend this amount of perpetuity—he's trying to do the same thing every time. He cared enough about the same thing every time, but a lot of people have difficulty figuring out what is that driving force. So my question is how do you see people successfully figuring out what that magic driving force thing is? So in your career you've done a bunch of different things, but I'd say you're in the same ballpark, the same theme impact throughout your career.

You see it's just so messy. You'll meet a guy who is a partner in a law firm and he's been a partner in a law firm for 37 years. For him his love of the law, love of his partners, and love of his reputation is all the same thing. I don't know how to tease them apart.

I'm multi-pational. I'm doing a whole bunch of things, many of which you've never seen because there in completely different segments. The project is where the texture is for me.

If I'm doing a project where I'm saddled with someone who I don't respect, it's very painful for me and I figure out how to change those things. The widget itself has a certain level of quality, but I've never once made a perfect widget. There are other people who make perfect widgets. I always don't. I am also very comfortable with that.

I don't know how to tease it apart for people. What I do know is they need to look for the fear. Over, over, and over again this comes down to:

> **Where is your fear?**
>
> **Where is your soft spot?**
>
> **Where is that thing your protecting?**

If we somehow let go of our guard and expose that soft spot is when we do our best work. It's the people who are always like this [arms crossed] who can't run very fast because they're like this [arms crossed] that they get less done because they're so busy protecting the soft spot.

When I find somebody who keeps jumping from thing to thing or coming up with clever elevator pitches or gets stuck, sooner of later it's going to come down to the fear.

If I'm going to talk to someone like Stephanie who's just filled with this joy, enthusiasm, smarts, and productivity; if she doesn't accomplish everything she's capable of in the next years, it's because somewhere you're afraid of something. We don't know what it is, but you're holding back on something and if you find it, then you're going to be able to lead with that and your projects are going to be much more likely to succeed.

This is almost never about talent.

It's about why are we sabotaging our talent and not going through the dip? Because it's easier to say, "Oh I failed at this, now I can go start the next thing."

The Size of the Dips

I think different projects have different sized dips.

Learning to do walk the dog with a yo-yo is a fairly small dip transaction. It takes about two hours with a yo-yo before almost any coordinated person can do walk the dog. Whereas learning how to juggle five pins is a three-week dip. So for two and half weeks you're hurting yourself and hitting yourself and then it works.

Your project is a three-year project. It's going to take you three years before you make a big profit being the default list. Go look at how long it took Nielson and SoundScan and everything else. To get through a dip that big, you need a rich uncle, you need a partner, or you need a business model that gets you small sales that keep you in business.

Your choices are to pick a smaller project with a smaller dip or figure out a model where some clients are paying you before you're ready to fund the whole thing. Or as you said, "Freelance to pay for your day job." That's really hard.

The third one is really hard and the reason it's really hard is you're in a race to make your list the default list. As you go out in the world and talk about it, other people are going to want to do it too because it's not only yours. You can't protect it. You're going to want to go full speed ahead.

But getting freelance work is hard and time consuming. If you have someone who's willing to pay you $500 an hour for eight hours a week, go take it, for sure.

But if you actually got to get good at it and compete with Sarah, Sarah's working all the time to get freelance work. You're not because you're trying to build something else. That's going to be a real tension for you.

What I learned is I needed to have small dip projects that paid bills that over time gave me a platform to do bigger dip projects. See what I'm getting at?

When I got in the Internet space I realized for a long time I could get it funded because AOL would pay me money, CompuServe would pay me money, or Prodigy would pay me money to build for them. I used that profit to build my web thing.

But again it wasn't this one long three-year dip where I wasn't going to get paid for two and half years. That kind of project, that's like an architect building his own house with his own hammer, and he has to drive to Maine every time he wants to go to work. That doesn't work.

So you have to make sure there's alignment between your resources, your customers, and how big the dip is.

BUILDING THE TRUTH

The Right Medium

We need to understand that you need to have the right thing that matches the right medium.

If you're going to open a store in a mall you shouldn't sell cars because people don't buy cars when they go to the mall. If you're going to sell snacks at the stadium you should sell peanuts and popcorn because people walk in expecting peanuts and popcorn.

When Jeff Bezos and his wife left New York and drove to Seattle, he sat in the car and made a long list of all the things he could sell at Amazon. The list included music, shoes, books, lots of things. But what he said is, "For it to sell online, One, it needs to be something where you don't have to touch it to know if it's the thing." So you can't sell bananas because bananas vary too much, whereas every copy of Catcher in the Rye is what you expect.

Number two, "It needs to have a huge variety because if I'm going to be the best in the world, I want to be the best in the world because I have every item that's for sale as opposed to some. I can defeat any store because I'll have all the stuff."

Number three, "There needs to be a way for me to price it so that the customer knows they're getting a discount." A discount because he was going to run a low cost operation and the model was you were going to give up the satisfaction of touching it and the gratification of getting it right now in exchange for variety and discount.

When you go down that list, books become an obvious choice because there's basically an infinite number of books and no store could carry them all, every book has a list price, it's easy to understand how to deal with discounts, and you get unlimited returns back to the book publisher so there's no risk. That's how he figured out how to sell books online.

When people run around and say, "No, no, no. We're going to sell fruit online because it would be just like Amazon." Well actually no it won't. It won't be anything like Amazon. All the advantages Amazon have does not exist if you're selling fruit.

That's the first thing—think about which place you want to sell. What is a natural thing of what that medium is good at?

Number two is remembering that the heart of all transactions is trust. I'm more likely to trust a store I'm standing in where I can see the item and take it with me when I leave than I am to trust a website that might just be ripping me off.

When you're saying, "Where should I sell it?" a lot of it depends on what you're selling. If you're selling a service, if you're a psychologist and you say, "You know what, for 10 minutes a day I can help you perform better." There's a couple ways you could sell it.

You could set up a table in Union Square with a little sign over it and people could pay you $5 on the spot.

You could have a traditional office in a traditional medical building and be just like every other psychologist except your sessions are really short.

Or you could have a website where people click a button and you answer the phone and you talk to them and they never look you in the eye.

Each one of them could work for a different reason, but you have to understand the transactions are going to be fundamentally different because our trust is going to be fundamentally different.

If it's the online site it better be free at first. Because why on earth would someone pay $50 so they could press a button and a stranger could talk to them on the computer? This is not going to happen. Whereas if I do it three times and I'm hooked, then maybe you could charge me.

Whereas if it's in your fancy office and you're trying to project you're a real psychologist, the thought that the sessions are free would wreck my trust in you. No psychologist would offer me a free session in her office if she were any good. So we're trying to match one to the other.

An absurd way to look at this is if we go to New York and look at fashion week where they have all those anorexic models walking up and down in all those clothes no one will every buy. Why are they doing that?

They're doing that charade because the people in the front row came to see a show. Fashion designers understand if they put on a show then the people in the second row who are the buyers for the stores will say, "Oh this guy knows how to put on a show, I'll buy his regular line for my fall lineup."

Whereas if you say, "No, no I'm just a good designer. I'm going to skip fashion week. I'm not going to pay the tax to be there," Bloomingdales isn't going to call you because you weren't willing to put on a show.

These are all complicated pieces that fit into, "What story are you telling and how are you building the truth?"

Letting Go

When I was building my company I believed that one-day I'd hire enough people that they could take care of themselves. Because if you hire managers and you think, "Now they can take care of…" But then the managers need taking care of. At 70 people I gave up. I said I'm never going to get there.

Then I got to Yahoo and the five people who were running the company didn't have to do any of that. They built their company big enough that it took care of itself.

If you think about the Howard Schultz example—the mom and pop—"Well he's not in this store, he must be in this store so this store's running fine…" Once you have enough stores, you can't be in any store; the stores are running fine. At some point you're going to need to hire a COO.

At some point you're going to need to hire a consigliere who takes care of all of this and that's their job. Their job is for them to do the stuff you don't want to do. And the way I describe it is this:

Entrepreneurs hire people who do everything they do so they can go do something else.

> **The only way to promote yourself if you're the boss is to hire someone who does your day job so that you now have to prove your value by doing something that use to be your day job.**

There are people capable of doing the taxes, the relationships with the banks, and everything else better than you. It's about you giving up enough control, spending the money, and saying, "I'm done with this." The only way you justify it is to earn more than that amount of money with the time you freed up. But it's a choice. There's nothing built into the structure of your business that forces you to do stuff you don't want. It's hard to get to let go of it.

I've tried to discipline myself to do that. I don't go to meetings, I don't look at bills and invoices, and I don't have a relationship with any bank because somebody else does that. I don't even see her. She comes in my office once a month. She has a basket and I put stuff in the basket and then it goes away. But I've known Ann for 15-20 years. We trust each other and it works. Does she do it exactly the way I want every time? No, but that's the price. I don't have to worry about it. In exchange, she doesn't do it exactly the way I want it, but she does it better.

Hiring a Chief Financial Officer (CFO) & Chief Operating Officer (COO)

My experience is this. Number one, a CFO is different than a COO.

A CFO is not a glorified bookkeeper. A CFO is in charge of thinking about money. A CFO for a public company is *way* different than a CFO for a private company. Do not hire a public company CFO to come work for your little private company. They will drive you crazy. But if you can find someone who is ready to think about money and rationalize the money, you do that first. It's much easier to hire a part time CFO. It's much easier to say, "Ok now the money is taken care of."

Then you can go find a COO and say to that person, "The money is taken care of. The marketing is my job. You're job is using the money you've got and the promises I'm making—make the promises come true."

Then you say to that person, "I work for you."—Meaning if I made promises you can't keep, you need to be able to tell me I can't do that. And if you need more resources to keep the promises I'm making, you need to tell me that you're taking the resources." That's the only way they can have the 'C' in COO, otherwise they're just going to become your admin.

At first they will not be one tenth as good at this as you are. They will not understand the smart shortcuts. They will not understand the right quality choices. Everything they make will cost more then you think it should. But if you're serious about getting rid of this stuff and you want them to run the army while you figure out the strategy, you're going to have to do that.

And the first person, the second person, and the third person might not be the right one which is why a part time project manager might be exactly what you want.

You say to this project manager, "This one client is yours. Tell me the resources you need. You're the Chief Project Manager for this client."

If they nail it, you give them a second one and a third one. You keep giving them new clients until they're full and they will have worked their way up and you will develop the shorthand.

I had one woman who worked for me as a COO and then I made her the president of Yoyodyne and it was fabulous. The first month I felt like one of those trust exercises where you lean back and there was no one there. And I just kept leaning back and I just let projects fail and I said, "I mean it, GO!"

After two or three weeks she just ran. The last two months before we sold the company no one woke me up in the middle of the night and things worked better than I ever could have.

It was because I said, "I'm not in that business anymore, you're in that business. They work for you. Figure it out. And I know it's going to cost more. I know it's going to take longer, but soon you'll be better at it than me." And it's usually the entrepreneur who sabotages it by hiring the wrong person or by not giving them the trust that they need.

Advisory Boards

You can call it an advisory board. You can call it a board. You can call it an advisory committee. By law, every corporation has a board and the board is actually representative of the shareholders and the board is the boss.

If you have a bad board, you're life is miserable. You have to be very careful about what is its function and who picked those people. If you're really selfdisciplined, you don't need a board to tell you what to do. On the other hand, if you do want to act exactly the way the system wants a board can be a very useful tool to keep you in line.

If I'm going to invest in Facebook, I care a great deal about who's on the board because I know they have a mad scientist who's running the company, but as an investor the boards' job is to look out for me. That's a tough decision.

That's really different than a board of advisors. A board of advisors has two functions. One, to give you advice and two, making you look good to other people. You should be really clear with yourself and the board which one they are.

If I blurb a book for an author, the only reason the author asked me to do it is so they would look good to other people. We both know that. We both know that it is not my job to field complaints from the readers if they're unhappy with the book just because I put my name on the back. That's not part of the deal.

If you go to the Mayor of Charlotte and say, "Will you be on my advisory board?" What you're really saying is, "May I drop your name when I go to meetings?" You should be really clear that that's what's on offer. If people say yes to it, you should make a big deal out of your advisory board otherwise don't bother having one.

The other alternative, is there a group of people who will tell you the truth? In that case the question is, should they meet as a group and should they be famous?

"Should they meet as a group?" is interesting because groupthink kicks in almost immediately. I'm not a fan of meetings whatsoever, but if you have eight people in the room, many with reputations, they're not having a meeting where they actually are giving you candid feedback about your goals and your dreams. They're worried about, "How does this look? How does this make me look? What does this person over there think about what I just said?" None of that is how you want to manage your life. At least I think so.

In those situations I would say, "I want to meet with you for lunch once a month. I'm going to bring you my three biggest problems. I'm going to make three promises to you. When I come back next month, I want you to ask me about the three promises I made to you. I want you to help me with three more problems and in exchange the Cobb salad is on me." If you got three people in your life like that, you win the lottery. That's fabulous—at least the way I've approached this.

Again you have to decide what is it's role and what's it for. If you end up with employees, this gets really tricky.

At the Acumen Fund I'm pretty active. Jacqueline, to her credit, likes it when I talk to her employees. And I say absolutely amazing over the top ridiculous proposals: "And go try this, maybe you'll fail…"

Now if I was runny a company, I'm not sure I'd want somebody coming in pretending they have my imprimatur just telling my employees to do whatever the hell that person thought of on their way over. But maybe you do.

So again, you figure out what you want the relationship to be between this advisor / public thing and the work you're actually doing.

And the last part in your particular case is I think because your whole foundation is in the community, I would find 30 or 40 people who aren't advisors, but who are actually on the hook, publically, to execute.

You say to that person, "I want you to sell a table at this Gala," but it's the equivalent of that online. Because when someone's on the hook to sell a table, they sell the table. They rather sell the table, buy the tickets themselves if they have to, than admit they failed.

That's really different than saying, "We support the Gala."

So, what is the equivalent of, "Can I put your name on the invitation? Can I mark you off for bringing 10 other influential people in? That's the first thing I would do when I got back to Charlotte.

THE SHIPIT JOURNAL

All right so the next thing I have in here is the fabled out of print ShipIt Journal. Do not look ahead please when you open them up.

This comes in a five pack for a reason and the reason was I wanted people to buy five at a time. And the reason you needed to buy five at a time was you needed to do this with everyone on the team at the same time.

Everyone on the team gets one of these and it has to be in print. There's a digital version, but I didn't do the digital version initially because I knew people would look ahead and say, "Oh. Ok. I get it," and put it away.

It's very important that it involves pen and paper because people act differently when they have to write something down. This goes right to this idea of the dip. If you fill this out in pen all the way to the end, I guarantee you will ship your project.

If you don't care enough to ship your project, don't fill this out. But if you do fill it out and tell the truth on every page, you will ship your project. Sit with a team of three, four, or five people and have an honest discussion about whether people are willing to write this down. It takes about an hour.

We're not going to do the whole thing today, but The ShipIt Journal is to understand what the dip is. Because you could quit that day if you want. You can fire people that day if you want. You can move on or you can say, "We're going to do this because we're gonna ship the thing."

We're going to have an aside here because its relevant to something later in the book, but let me talk about it now.

A guy name Steve McConnell worked at Microsoft for years and years and he could not understand how an organization as smart as Microsoft so often missed ship dates for software and how expensive it was. What tends to happen is this:

The first edition of software—Excel 1.0, Word 1.0—tends to be built by two people. It tends to get out the door ahead of schedule and work ok.

The second version of a piece of software is almost always a disaster because it gets loaded up with features and the management of the whole process is bad.

And the third version of a piece of software tends to take 100 times as many people to build as the first version. And it's not just software; it's fancy office buildings and everything else.

Here's what we understand is the reason.

Thrash in the Beginning

When you're working on a significant project a couple people are involved in iterating about it, brainstorming about it, going back and forth. If you think about your projects, it's two or three people at the most. But then it gets sort of interesting and I'll use a corporate example first.

A vice president gets involved and a couple other people on corporate. They have more ideas. Maybe there's a focus group or two. The amount of variation, what Steve calls 'thrashing,' happens.

Meanwhile this is time [X-Axis] and this is ship date right here [Y-Axis]. Well it's working really well, so now you have to bring in the marketing guys because you're going to be spending a lot of time launching it and some sales people and they have a very different idea.

Now the programmers say, "We have to rebuild the database," and the salespeople say, "That means the price is going to have to be higher," and the marketing people say, "That means I need a bigger budget."

At this point, [Steve] Ballmer comes in.

Now there are more meetings and the project is almost cancelled because it's getting closes to being behind schedule. They look at how much money they've spent so far and it's going way up. At this point they go one more cycle and they're about to launch and then the corporate lawyers are invited in for one last look just to make sure. Then they have to rewrite the source code. And you miss your date.

Changes to buildings, software, and projects at this level [towards the end] are inanely, insanely expensive compared to here [the beginning] where they're almost free. For you to change your business model here [the beginning] it costs you a nickel. If you want to change it the day before you launch, you got big trouble.

So Steve's [McConnell] answer is really simple. Thrash at the beginning and then keep taking people off the project until you launch.

It's really easy to look at this and say that's impossible, but it's not impossible. In fact, that's the only way to do it. When it's cheap and it's just in the paper planning stage, that's when every person who has to approve it has to show up.

When it's over here [towards the end], Steve Ballmer is not allowed in the building because Steve already approved it when he saw the PowerPoint version of the layout here. Too late Steve. You don't get to tell us you want to move the save and exit button around. Not allowed.

When I had my first real job, my only real job at Spinnaker, the president of the company was a great guy and I was in charge of a whole bunch of projects. If I missed the date by even one day, the company—all 100 employees—would go bankrupt. And I had learned from working with him that he was really busy and like Ballmer, but with better taste, he would show up at the last possible minute to play the game (we made computer games) and give us really valuable feedback when it was too late.

So I had these five products I had to get out. I had a year to get them out and we had just finished the scripts. The scripts had every word that was going to appear on every screen. We had the pictures, the art mostly done. We had some sound done. These were the first computer adventure games that had pictures and sound.

I walked into David's office and said, "Here are the five scripts. Here's the sample pictures. Here are the sound files. And here's a piece of paper. What the piece of paper says is: I David Seuss, if the software has this script and the software uses these images and the sound sounds like this will approve the game when it's done."

I said to David, "You can take as long as you want to read these scripts. And you can take as long as you want to look at these pictures. But you see that team out there of seven people; no one is going to work on anything until you sign this piece of paper. But once you sign the piece of paper, you may not comment on a word in the script and you may not comment on the music or the way the graphics look because I'm showing you them today." I was 24.

And he looked at me in his great laugh and he so respected why I was doing this that he laughed, smiled, and signed the piece of paper. He never bothered us again.

That's the only reason we made our date. It's because I kept that piece of paper. I wish I had it to this day. If anyone said, "What about…" and I say, "Sorry it's already approved. We can't change that."

The same thing's true if your renovating the supermarket down the street and you just see the number of tradesmen going up who are there, but the number of people who get to make decisions about architecture keeps going down because they're not allowed to be there.

Filling Out the ShipIt Journal

Now to the ShipIt Journal. Let's go to the first page with blanks in it. What I tried to do are force people to demonstrate precision and intent about a project.

The first question is,

> ***"What exactly is this project?"***

It can't be vague because vague things are not manageable, finite, time dated, doable, or fallible.

It's only a project if you can say, "We failed."

It's only a project if you can say, "It's done."

Facebook is not a project. A project is adding comments to picture pages. That's a project.

Then you have to pick as group a date and a time on that date when it will be done. Not when it will approximately be done, but when it will be *done done*. And if you can't pick a date, you don't have a project. Don't have this meeting. Go back. Figure out what you need to so you can have this meeting.

The next page is,

> ***"Give me the name of one person who is in charge of making this date happen."***

There are other people who work on the project. That's fine. You can divide the tasks into multiple projects. That's fine. But it's not a project unless one human being is responsible for getting it to ship on time. By definition that person gets to tell everybody else what has to happen for it to ship on time.

One of the things we did at Spinnakker in order for us to make a thing at the end, (we had 60 or 50 people working on it full time) is I had a bunch of buttons made. Some were green. Some were red. If you were on the critical path to get this thing out the door, you had a green button. If you weren't, you had a red button. The deal was if the person with the green button needed something from a person with a red button they got it.

If you were in accounting and you had a red button on and the person with a green button on need you to play test the game for 20 minutes to test a little section of it or we'd miss the deadline, the person in accounting had to stop what they were doing and help the person in the play testing division by testing the section of the game.

If you're serious about shipping the project that's what you're going to do. Right? Otherwise you're not serious; so don't complain when you don't ship it.

Now we get right into the nitty gritty about telling ourselves the truth of what we're afraid of.

One of the things we're afraid of is not making the date. Ok I get that. But there are all these other things we're afraid of which is why we delay things, look at things the last minute, and make changes.

We're afraid of being made fun of, getting bad reviews on Amazon, not selling, not getting picked up, people thinking it's too this or too that. All these emotions need to be brought up early so we can be really clear about what this is and what it's for as a project.

Along the way to get this thing to ship we're going to have to make compromises.

This next page

"Pick some edges" is about compromises. Some of the things you're doing you're just not willing to compromise on.

Zappos is not willing to compromise saving money on how long they're willing to spend on the phone with a customer. Are they willing to save money on how thick the cardboard is they use to box up the shoes? Absolutely. If they can save money by using thinner cardboard it doesn't affect what their business is all about.

You have to highlight here what the edges your company / project stands for and which ones don't you care about. What that means is if it comes down to a compromise, to make the budget or make the time, you say, "I'm not compromising that one, but I will compromise this one," because you're not going to have everything.

Let's say the reason we're building this flashlight is because this is going to be the most durable flashlight ever made. This flashlight is going to be waterproof, sunproof, shockproof, etc. Then they come to you and there are six weeks left before the deadline and they say, "Tara we got a problem. The titanium shipments aren't going to be coming in on time unless we pay an extra $10,000, but we can substitute aluminum."

You say, "Why? Are we doing that because we're going to make it cheaper or what's the impact of that?"

They say, "Well the problem is it's going to make it a lot less durable."

You say, "The whole reason we made it was to make it durable. Pay the money."

Whereas if they say, "It's going to change the price," you say, "I don't care. We're in the durable business. We're not in the cheap business." That's what I'm getting at.

Ok next page.

"Who are we trying to please? Who is our customer?"

Again, this is where so many projects get stuck. None of these projects have to do with the laws of physics. They have to do with taste. They have to do with compromise.

Someone comes into the office and says, "You know, I was talking to my mom. She didn't understand the tag lines on all our sell pages. I think we need to redo them."

You need to go down this list and see where this person's mom is on the list. And if you're not trying to please her, you don't try to please her. It's that simple.

If you're talking about helping an author with a Kickstarter and the author decides she doesn't like the fourth level prize, you say, "But your readers love the fourth level prize." If you've done this—*who's it for?* Is it for the author or is it for the readers? When possible do both, but when it's not possible, *who's it for?* Important to understand.

Jumping ahead a little bit.

"Questions and ideas for the devil's advocate."

I know a guy in publishing, who every meeting I have with him even after I've written a blog post about this that he read, can't help himself. He says, "Let me play devil's advocate here for a second," and then explains why some idea I'm going to do isn't going to work. And every time Will says it I say, "The devil's doing fine. He doesn't need an advocate." And every time Will says, "Yeah. I know." Because he doesn't think about when he says his expression.

So this is a list of all the reasons that people are going to give you about why your project isn't going to work and you just have to say, "Oh, it's already written down in the book. We don't have to have a discussion about any of these reasons because I already read them all." I put that down there to make it easier for you

Then particularly with internal projects, but also projects where there is a board of health or whatever,

"Who can stop it?"

Who can say, "I do not approve of this. You're not allowed to do this. I am stopping you from doing this." Those people, by definition, have a real say in whatever compromises you're going to make to get this thing out the door.

The next page is the opposite of that, which is,

"Who are the people who are essential to us making this thing work? Who are the people I have to court, engage with, or satisfy because their contribution will make the project a project."

Now we get to my favorite sneak question. On the next page it says,

"What does perfect look like?"

I would like you to list when your project is working perfectly.

Exactly what is it?

What kind of profit does it have?

Who loves it?

What shape is it?

What color is it?

What do the reviews say?

Whatever is important to you about perfect, this is the page where you write down what it's like when it is perfect.

But then the next page says,

"What does good enough look like?" And *"good enough"* probably shouldn't be the same as perfect.

The definition of "good enough" is good enough. Perfect is the enemy of good.

It is better to ship something that's good enough because you told me what *good enough* was than to ship nothing.

You need to be really clear with the team if they get four gold stars by making something perfect, but they also get gold stars by making something *good enough*. Because we're all in the business of making things that are *good enough.* Even if you want, you can make *good enough* really close to perfect, but there is a difference.

You cannot be in the business of shipping on a regular basis if perfect is your only option because you just don't get perfect.

Then we get into the nitty gritty. And you can't fit it here.

Every task, every event that needs to happen—By what date? By whom?

The concrete needs to be delivered by this date and piled up right here.

The tow truck needs to be ready to move this item from here to here.

This batch of code and this piece of art need to be done by this date.

You just exhaustively list every dependency and everything that everyone has to do. If you need to, you make those into mini projects with mini project managers.

It's here that the friction starts to show up because "The concrete guy can't do it because he didn't get paid. He didn't get paid because the CFO didn't authorize the payment. The CFO didn't authorize the payment because the form wasn't filled out right. The form wasn't filled out right because this guy…" You go all the way back and you discover that just because one person didn't fill out one form your project is going to be a month late.

The goal on the first day is to be really clear with everybody about what all those dependencies are, rip out every dependency that's there just because it's always been there, and to replace them with smaller teams with more responsibility. That is really critical.

If the project is worth doing, it's worth doing with a smaller team.

Mapping Out a Project

Q: So what I'm having trouble visualizing is now it's me—I'm not a programmer and so how would I leverage this tool right now? Or does this come once I—is this first step I need to amass a team with the right…"

No. So you say, "I'm going to need programming." That's early on. There's a place where you're going to list what's going to be a part of this project.

Then you call Brian at VJ labs in Maryland and say, "Brian, on December 15th I'm going to need software that matches this approximate spec. For you to make that date, for you to bet your reputation on that date, on what date do you need to get from me every screenshot, every layout, every requirement?" And he says back to you September 1st.

Suddenly the only deadline that matters if you really want to ship on January 15th is September 1st. If you miss September 1st, you're never going to make it up in volume. You're never going to make it up later on. September 1st is the do or die date.

Then you go to your graphic designer and you say, "Mr. Graphic Designer, by September 1st I need this. What do you need from me today to guarantee your entire reputation that on September 1st that I'll have this?"

If he's any good he's going to say, "I'll tell you one thing I need, you're not allowed to call me after August 10th. Because if you call me after August 10th, I'm going to have to drop everything and do something new and then I can't make September 1st." You say, "Fine. So if I give you this, this, and this by August 9th, you're promising on September 1st I'll have that?"

Now, you can build slack in which is a useful thing to do. Don't tell everyone you're putting in a week of buffer in-between them, but the point is you're now being honest with yourself. In fact to get this out on January 15th, you have to finalize everything by August 22nd or whatever the date is.

Somewhere along the way you were fibbing to yourself and it's not going to ship on January 15th. Rather than paying all these overage charges to race like a maniac in December, you better say, "I either need to make a smaller project or I need to change my ship date." That's what I'm getting at.

When you move the thrashing all the way to the first day, that's what goal we're trying to do with all of this.

So when Brian at VJ Labs says, "I don't want to get a call from the graphic designer after September 1st," you just moved graphic thrashing all the way over here, which is where every other organization would be looking for the first time on November 10th at what Brian showed them.

The way we built Squidoo is we gave him every single screenshot and we never called him once.

And then he calls us up and says, “Done.”

We say, “Here’s your check. Thank You.”

He said, “That has never happened to us once in doing 150 websites.” Because they make all their profit on the changes.

He’s like, “We were happy to work with you, but we didn’t make any money because you didn’t bother us.”

And they were on time and so were we.

Your Minimal Viable Product (MVP)

Ok so the Lean thing, and I am no expert on it at all, involves a post industrial thinking about code, which is that code is soft, code is malleable, and if you break it into small building blocks, changes won’t kill us. The thought is build the minimal viable product.

Most people don’t understand the word minimal or viable. It’s something people can actually use. Figure out what’s working. Evolve. Go to the next thing, go to the next thing, go to the next thing. And finally because the coder is sitting right next to the marketing person and you’re doing this as a team, the thing that launches into the world is cheaper and faster and more agile than if you did it the top down industrial way.

Eric would disagree with me about how to do this. He’s saying thrash from the beginning to the end and just keep thrashing. Always be shipping. Always be in beta. Always figure out what’s working.

I’m more old school than that because I think lots of things in life aren’t involving software. I also think if you understate what viable is, you will launch something that has no chance to capture hearts and minds. If it doesn’t capture hearts and minds, you’re not going to extract the value you really need. And in a market that increasingly values beauty and likes the reliability that comes from connection, sometimes that approach isn’t going to work.

On the other hand at Threadless, two of the guys who pioneered this whole thing built a bad version of Threadless then a slightly less bad version, then a slightly less bad version, and now they are a $40 million dollar company.

It definitely works.

I just don’t think it’s as useful in lots of other areas of our lives and it can’t hurt to have these organizational conversations even if you’re being agile. You never want someone with power coming in at the end and telling you your strategy was wrong.

One way engineers do that is they say, “It’s 1,000 micro versions of the software. Each one is an online pitch to use my software.”

I’m saying, “It’s a 100 small projects, where project number one is come with a PowerPoint that’s good enough so that when I have a sales call I can show it to people asserting it’s real and see what they say.” That’s a project, that first thing.

A lot of you came in here thinking, “No, no. I need to finish everything and make sure it’s perfect. Then I can go on a sales call.”

Of course you’re stuck because it’s impossible to finish everything. It’s impossible for it to be perfect and you don’t want to go on a sales call. The three of those put together means you’re going to be planning for the rest of your life, but you’re not actually interacting with the market. That interaction is key.

It’s really worthwhile to take a step back and figure out what’s going to be hard about your product.

If I went to a wedding with 100 disposable cameras and I gave them out and then two days later everyone who was at the wedding got an Apple printed book created by 500 people filling in quotes in notebooks and taking pictures with a disposable camera and then I said to those 100 people, “Want to buy another one?” And I found out no one did, that’s a version of a minimal viable product that had no software whatsoever involved. I find out if the book itself is so electric that people need to buy more of them.

Maybe though the hard part is it just needs to be, “Can I find people who will use it online and contribute?” And it has nothing to do with analogs in the real world.

If that’s the thing I’m testing, a minimal viable version is I create an e-mail address and I publicize that e-mail address at some concert.

“Everybody send me your pictures.”

Everyone sends in a picture to that e-mail address. I quickly paste something up, make it a Tumblr, see how many people want to come to the Tumblr, and how many people want to comment on it—is that sort of thing something that touches them that they’re excited about?

Again these are ways you can test the words that you use and the way you promise things to people. Again no technology was used whatsoever.

One of the magic things of Yelp, Facebook, and Ebay is they’re digital analogs of things that we we’re already totally into. They didn’t invent a whole new way of human beings interacting. This is a slight analog of something, but you’re supercharging it because you have digital and everyone has the phone in their pocket.

The worst case for your MVP is it needs a Martha Stewart flair, fit and finish before people fall in love with it and trust it. In which case you're MVP is your final product. And that happens too.

I would argue that's what that travel website I saw at Techstars Wander is. Wander only works because it's unbelievably beautiful. If they had built a non-beautiful version of Wander, fail. No one cares if the database is any good. That's easy to fix. But they needed $1 million dollars to make Wander beautiful. That might be what you need.

You're going to have to figure out what part is going to be the hard part here and that's going to come from your sense of hanging out with the kind of customer you want.

Last thought on that. The web is a big place. There are lots of kinds of customers on the web. What we found out at Squidoo the hard way is that high-end fashionable people like Tumblr. They don't like Squidoo. Stay-at-home moms who are interested in Chameleons and Tattoos, they like Squidoo. So we ended up with a group of people we didn't think we'd end up with because of the way we made the offer.

The minute we said, "We will pay you a royalty," we got a totally different group of people then Tumblr which gives people nothing.

So you have to say, "Am I building this for hipsters in the East Village who don't go to the High Line anymore because everyone goes or am I building this for people who are going to the big family wedding in Chicago?" Totally different groups. You don't know for which group what they want. You have to pick, then you can find out what they want.

Ok so a couple of things I want to cover here.

"Who becomes your competition?" gets back to the fear.

On the day you launch you now have competition.

On the day you launch you are no longer with a green screen behind you. Its there is someone just like us.

You need to say out loud, "That person now becomes our competition," because then you've outlined one of the things you're afraid of.

You turn the page,

"If this doesn't work after you launch, what's the worst that could happen? Really? The worst that could happen?"

I'll let you read about the Bradman Test on your own.

Then there's

"*Plusing and Minusing*"

Plusing is a Disney term. What Walt Disney used to do as movies were being made is he would say to the animators, "These 10 frames, how can you plus them? How can we turn it up to 11? What can we add? What feature can we add?"

But you can also minus stuff. "What can we take away? How do we do less? How do we make a smaller offer? How do we say we don't do that?" There are two reasons to do it: one, because it makes it more likely you're going to finish your project. And two, because it actually makes you more likely that you'll become the best in the world at something.

Very few people think the buffets in Las Vegas are the best in the world, but they have everything. We would much rather go to Shake Shack where there's five items than go to some place where there's 5,000 items.

At some point when you say, "We have everything," what you're really saying is, "We have nothing."

I think there's an interesting conversation we had about yield maximization, but I'm way more interested in having a conversation that says, "This is me, this is what I stand for."

No we don't do that.

We do not serve children.

We not accept this.

We do not have that.

We are a nudist colony in Mexico for fat people and if you're uncomfortable with fat people don't come. If you're uncomfortable with nudist don't come. That's who we are. That's what we do.

None of you, not one I've heard, has a business that's so universal and so magical that needs to be this is for everybody. It's not.

If you start with "This isn't for you," it makes it much easier to be remarkable. It makes it much easier to be the best in the world because *it's not for you*.

Then after it's in the world and you have a relationship and after you can talk to people, you can do legitimate testing to see what you should add as opposed to seeing what you can take away.

The way I like to test for what you can add is this, and I learned this from Sony.

Sony used to run focus groups and they would discover people would say anything in a focus group to make the moderator happy. So they're sitting there trying to test this radio they were going to sell for $49 and at the end of the session they said to the people in the room, “Thank you so much for being here. As a gift we’d either like to give you $20 in cash or the radio.” And no one wanted the radio. There you go. They just learned something really important about the radio.

You say to people, “We’re either going to add this feature or this feature,” not “Do you think we should add this feature?”

With, “We’re going to add this feature *or* this feature,” you just discovered something about which feature really matters to people.

If you say to people, “What should we take away so we can add this?” You’re starting to discover what really matters to people. But you never want to get to the point where there’s a democracy deciding what you’re offering. The minute you say “All right everybody vote what I should do next,” then you’re not adding enough value to the people you’re leading.

When was the last time you did something for the first time?

The notion that as we cross 19-years-old we are instructed and encouraged to not do something we haven’t done before, I think it’s a really bad thing.

I think the feeling that one gets from doing the new thing, from “this might not work,” is what rewards us as humans and amazingly society is now rewarding.

I want you to think about, as you go back through this project that you just spent an hour analyzing so it would actually ship, what if you built in four more weeks of time so you could put stuff into the project that might not work? What if you invest an enormous amount of time and your energy to do something in the world that might not work?

What professionals do is they stay professionals by regularly doing things that require emotional labor—regularly doing things that are outside their comfort zone. Yeah, it might be a matter of life and death, but yes I still want my neurosurgeon to learn something new. The idea that that’s why we’re doing this is the heart of this.

You don’t need this if you’re making chicken Florentine every single night in a restaurant because you’ve done it enough times that yes, it’s going to come out in time for this patron to be happy.

Who needs to go through this—the ShipIt Journal—this is all about “I’m doing this because I’ve never done it before.”

Shame and Vulnerability

Then to wrap up, I bring up the thing that we’ve underlined so much of today and yesterday which comes from Brene Brown. *Shame is the project killer.*

The fear of shame is what people use to keep us in line. It's what we use to keep women in line. It's what we use to keep the underclass in line. It's what we use to keep each other in line.

Don't get up and eat.

Don't speak up.

You have no right to do that.

People will understand that you're unprepared.

You don't want to put yourself out there because we will make you feel shame.

What we do with our projects and the reason our projects are late is because we're adding all this fat to them to protect ourselves. We're adding all this insulation and all these layers.

> **The reason we use 100 words to answer a 10-word question is because the other 90 words are designed to distract the person who asked us the question so that we never have to say the 10 words that are true.**

We're afraid that if we say the 10 words that are true, the person might actually hear what we say and say, "You should be ashamed of yourself. You should be ashamed that you didn't know this. Or that you spoke up about this."

It's so much easier to lay 90 words of other stuff on top of it and committees and subcommittees and "I can't do that because…" and "You don't know my real thing…"

Just get to the 10 words because you have nothing to be ashamed of. You have trumped the shame by being meaningful. You have trumped the shame by going into the world and doing something that needs to be done in the first place. And how dare the critic who has never produced anything useful, *ever,* stand up and point a finger at you.

How dare they say to Jonah Lehrer, "Oh, you made up three quotes about Bob Dylan, therefore you should be ashamed of yourself."

This guy who puts himself on the line day after day after day and shares and puts stuff out there—alright your jealous of him, I get that, but how dare you say "He should be ashamed of himself," when you have never been in his shoes.

We just have to let go of this and we have to say, "I'm not going to be ashamed of who I am and what I care about. If it's not for you, you're a non-believer."

> **Haters gonna hate. Shun the non-believers. You can move on.**

“But this is me. This is what I believe in and I cared enough about this to put it in the world. If it’s not for you, that’s ok. But I will not accept your shame. I’m being vulnerable because I want to be better at this, but you may not give me your shame in return. I’m just not going to take it. It’s not for you to give me.”

Once we can do that, we can fill out the next book and ship the next thing. And ship the next thing. And over time the foundation gets stronger and stronger and you get better at it. Suddenly your dreams become projects and your projects become businesses and you can do it again.

That is why I do these events so that you understand that and so you can put stuff into the world.

DISTINCT AND DIRECT

The Benefits of Having a Reputation

I would argue that in almost every failing industry the people in the top get hurt last. So you can milk this cow for a really long time to come if you choose. But a big part of it will be making a commitment to marketing yourself quite aggressively and changing certain parts of how you do what you do in order to increase your market share as the size of the market goes down.

When we saw the music business falling apart, Van Morrison is one of the last guys to get hurt. Even though the number of records that get bought goes down, people are still going to buy Moondance for a long time to come.

If your Van Morrison, the answer isn't the minute the music business is in trouble stop being in the music business and open a bowling alley. The answer might be double down on the music business and understand you might have to go tour more often. You might have to figure out how to generate different streams of income to make up for the fact. But it's easier for you to do that because you're *Van Morrison*. That's number one.

Number two is I don't think there's ever a statement about good or bad or failure or non-failure about a person's decision to quit. This is strategy decision. It's not a morale decision.

If you decide to quit to go do something else, you should make that decision because you want the thrill of scaling in a growing market, not because you can't think of how to make the existing business legit going forward.

If you love what you do, keep doing it and grow it in a different way because the industry is not going to disappear for a while.

On the other hand, if what you love is skiing fresh powder, there's not as much fresh powder in the book business because there's way more people stamping it down. You may have to step four steps over instead of one step over.

As an industry starts to collapse, there's no question there are more opportunities within that industry and those opportunities tend to belong to the person with a track record.

When AOL started to crumble, because AOL was my biggest customer, I had more opportunities to do stuff with AOL, not less opportunities.

AOL said, "We're going from 100 projects a year to 10."

Who are they going to give the 10 to?

They're going to be more conservative with the 10. So they are more likely to give it to me because I'm safer than they are to give it to some guy who just shows up.

You can pick up, for example, a lot of business at Microsoft whose business model for the next 20 years is threatened. But they have 20 years before it goes away. Someone has a reputation at Microsoft. Their ability to go in there and get more and more contracts goes up. See what I mean?

That's what I was sort of saying about your industry. Not that you need to quit it today, but you need to see that it's in disarray, that the boat is slowly sinking, that the deck chairs are up for grabs. If someone who's calm, who stands up straight and walks in and starts collecting deck chairs, no one's going to question them because it's the captain. Of course he's allowed to take deck chairs.

Becoming a Cash Cow

No money means every time someone pays you $20,000 or $50,000, you're putting it back into growing your company. The house in the Hamptons is on hold for a long time to come.

Because what your market likes to buy is expensive stuff from cash cow leaders. Your market isn't sitting there saying, "Who's got some new data driven way we can analyze things and do better tomorrow?" That's not what they're saying.

If you're an insurgent brand, which you are, insurgent brands never spin off cash. Insurgent brands always put the cash into becoming cash cow brands.

After they're cash cow brands, like Nielson or comScore is—I mean comScore hasn't done anything interesting in years. No one wants them to do anything interesting. That's why, not because they suck. Because their customers suck.

Q: Right. So you put the money back into it. So how can you possibly not go out and raise the money?

Because raising the money the dip in of itself. The people who are waiting to invest money in you of that size are asking for something you don't have right now. They're asking for stuff that's more locked down, stuff that's better verified, more clients, more cash flow.

This is like putting a flyer into a $100,000 web start up. They look at the kind of people who have come before you and every one of those businesses has been boring, straightforward, and accountant driven.

The guys who built SoundScan, the guys who built Nielson, the guys who run the New York Times bestseller list—those are all companies run by accountants. They're not run by some guy who's a wild-eyed visionary. The kind of person who's going to fund you aren't looking for a wild-eyed visionary.

All I'm saying is if you're waiting for the $2 million bucks please go prove me wrong. Go raise the $2 million bucks. If you can, go for it.

I'm just saying I would rather see you do your dog and pony show for customers than do your dog and pony show for investors. The dog and pony show is going to be very similar for both, but the customers can give you money tomorrow and you don't have to pay it back.

Coming Into Your Own

I think that it is essential that you do not rent your friends from Facebook. You need to have a direct controlled connection between you and your friends and that group of friends has to get bigger. That first circle has to get bigger. E-mail is the best tool I know, but if you find a better tool that's fine.

If we look at Twitter conversion versus e-mail conversion, if we send out a link, e-mail is 10 to 20 times better. 10-20 times as many people will click on a link in an e-mail than click on a link in a tweet.

If you build this connection where 100 or a 1,000 or 10,000 people want to hear from you by e-mail, that is your asset going forward.

What I found is when everyone can have their own TV show, radio show, or the equivalent online, it's really easy to decide to become the invisible no personality conduit. It's just showing up every week, but it's really me or Dan or Simon, not the host who's saying something interesting.

The problem with that is those people isn't really adding any value in the world because the reader already knows where to find me. These people aren't showing the guts to say, "I have a point of view. I have something to say."

Every once in awhile somebody like me shows up.

> **The future isn't that we need more Charlie Roses because we don't. What we need are more people who actually have a point of view and are worth following for themselves.**

When all these people show up and say, "Please do this. It will be really good for you and I have 400 listeners or 400 readers." I'm like, "I'm sorry. I don't want to be selfish, but no. It would be really good for you because I have more than you and I know you want me to link to it when we're done, but I could just write it myself if you want me to write it for you."

That's why my advice to Stephanie was don't expect that the people who came before you are going to make it automatically easy for you to have their readers. The win is to become your own distinct voice.

Stephanie is 20 years younger than the rest of us. She's from a different part of the world than the rest of us. She sees the world differently than the rest of us. We're waiting for a Stephanie, not somebody who's just going to report what the old white guys have to say.

Tina at SwissMiss now has more readers than I do. If she comes to me and says, "I'd like to ask you four questions about your new book," just selfishly, never mind my part that I like Tina to succeed because she came from zero to that many in no time; I'm saying, "Oh, that's like being asked to be on TV." I'm more likely to do that because those are new readers, more people who are there to hear Tina, not there because I'm there. I'm honored being asked to do that.

And it's not just a numbers game. It's more of a point of view game. When someone has a distinctive point of view—a Marc Maron or a Bob Lefsetzs—those people honor you more when they want to talk to you than someone who's just taking good notes.

Selling to VITO

This is a simple technique that only works for Fortune 5000 corporations or bureaucratic non-profits. And it only works when you have an offer of significant benefit to the institution you're trying to sell to. Those are the two key pre-cursors. But that's fairly common.

What you do, it's from a book called "Selling To VITO", you write a single page letter that describes not what is on offer, but what sort of offer it is.

Meaning, "I have something I want to tell you about. It takes 10 minutes and it's going to increase the sales of Microsoft Word by 15%."

Or, "I'm launching a new company. It's in the intersection of this and this and I need to find out who at your non-profit can mention what we're doing."

It leaves mystery to the question.

It is not enough of a question that you can get a 'no.' "We thought about what you just said, the answer is NO."

It's, "Are you interested in hearing about the thing that's behind this curtain?" So that's the question.

Then what you do is you use their website and you find six people in the organization who might be in charge of the answer to this question. Senior President of this, Senior Vice President of this, Director of this, Vice President of that. You list all the names in the "To:" line of this letter. You print six copies and you highlight one name for each of the six copies.

Then you take the six letters (this still works in the electronic world) and you put them into six interoffice mail yellow things with the names or into plain envelopes and you write the person's name on the envelope. So now you have six envelopes—Steve Ballmer, Bill Gates, Blah, Blah, Blah. Six envelopes.

Then you call the company, so far you've invested two minutes of your time, and you ask for the mailroom. Whoever answers the phone in the mailroom you say, "What's your name?" and the guy tells you his name. You say, "Thank you very much," and you hang-up.

And you get a FedEx envelope and you FedEx the guy in the mailroom the six envelopes with a postage that says "Please Distribute."

What happens is it's his job to distribute them. Six of these letters get delivered to the six people you're trying to reach. We know that they're going to get delivered.

The person opens it. They see the other five people who got the letter. There is no recourse other than contacting the other five people to find out who's going to handle this. Because they don't want to write you a "Yes, I want to take a meeting" only to find out that someone else wrote them a "No, go away" or the three of them offered you separate meetings.

So one guy gets assigned to deal with you and often that person will either call you or send a note saying, "What's up?"

What you've just done is you've found one person who's willing to give you one-minute to find out what it is that you have that they really need to hear about. Now it's up to you.

It's so much more effective than spamming people with their e-mail or leaving 100 messages on their voicemail system. What you've done is respected the hierarchy and everyone in the system has done what they need to do.

It's not something I do very often, but every time I ever did it, it worked. Selling to VITO—the entire book is that.

Paying the Price Early

It depends on what you and your family need for piece of mind. My basic suggestion for the typical person who wants to do this is to act like you have no money now.

Eat black beans and rice every single night, never go to a restaurant, never go to a movie, move to a smaller house, sell your car, get a used thing—just cut your costs to zero while you're still making what you're making now and take 80% or 90% of the money and just pay it into an account.

Get the number in the account to where you, your spouse, and family will be happy for X number of months without any income. It might be that you have to do this for three years before the amount of money in that account is big enough. But you're still eating black beans and rice every single night.

You're paying the price early, not paying it late. Then there will come a day when you say, "The combination of my freelance income, my project income, and my hope is greater than my need for this other thing I have going on."

When that moment comes, then with a happy heart you can go and take the leap.

It's so much easier today to make money from multiple streams of income than it was 20 years ago. There are lot's of ways you can string together Saturday morning work, Sunday work, evening work so that it gets closer and closer to the day you can say, "I don't need the security of *this* paycheck."

But if you have a spouse, it's really their call because if they're not in, it's painful to take the leap when they're not ready."

Beachheads

I think a lot of this depends on the industry. It's really easy to imagine the beachhead.

When I was at Yoyodyne and we signed up American Express and Proctor and Gamble, I was like what else do you want?

We were going to MasterCard next and they looked at us and said, "We don't care. We don't care that American Express is a happy customer who wrote you a testimony. We don't care that Proctor and Gamble is in."

Suddenly my beachhead wasn't worth a thing except that they paid their bills.

It's very easy to seduce yourself into thinking there is this magic customer. I'm not sure in many industries it works that way quite like it used to.

Technology industries are a little different because there are people in the technology business who want their competitors to adopt you. They will actively promote you because they want everyone to be digitizing this or working this way. It helps them.

But in general, I think a customer is a customer and a cash flow beats a beachhead any day. Once you have enough cash flow, then you have the power to look a prospect in the eye and say, "Maybe this isn't for you," and start leaving.

When you say that, all bets are off. They chase you. They're like, "What? You can live without us?" Suddenly they want to work with you.

Interact with the Market Early

As I talked about in the ShipIt thing, you can't have a beautiful website that includes everything. On the same day you could have just your blog. One would take a year and one would take a week.

> **There’s almost nothing that’s worth waiting a year for if the alternative is to go for a week and interact with the market.**

The people who come to me and say, “I’ve just spent four years writing this book. Now I need to start a blog,” have made a huge mistake.

They should have spent four years writing their blog and now they’re going to write a book. The four years they were silent were four years they didn’t get to interact with the people who could trust them now that they’re ready to have a book.

For you, there are only 225 people who trust you. Your number one goal is to get to 2,000 people who trust you and you need to start tomorrow. A beautiful website is fine, but it’s not going to be worth waiting for if you haven’t already built your way to the 2,000.

Getting Legal

As someone who’s married to a lawyer, friends with former lawyers, lived in a law school dorm for a year—when I was in college my partner, I, and a third guy started a company. We raised $5,000 from each other to start it and spent $3,000 on legal fees. It was so stupid.

A legal document might be an important marketing tool in certain business cases or at a skateboarding park where the presence of a dense block of text makes you look more official. If that’s the case, you might want to buy that or get a facsimile by stealing it because stealing legal documents is always a fine thing to do.

But, generally, the goal is to not get sued, not to have a legal document in case you get sued. You can write a legal document that will help you not get sued. And the way you do that is two things.

One, you write it in really clear English so you both know what you actually agreed on. That dramatically decreases the chance you’re going to get sued.

Most of the time people sue it’s because they are hurt and angry not because they think they can make money. If they know what they signed, they’re way less likely to feel hurt and angry because they know what they signed.

And number two, which I’ve been using forever, is you put a clause in that says, “Any disagreements we will settle by binding informal arbitration. You pick a lawyer. I pick a lawyer. The two lawyers pick a third lawyer. That lawyer spends three hours looking at memos that we both write and decide who’s right. End of discussion.”

Once that’s in there then both sides understand they can’t outspend the other one because the whole transaction is only going to cost $1,800—three hours of this lawyers time. Rather than risk a crapshoot at that, they try to find a way to agree with each other because it's just not worth it. They know they can't bully their way to victory if they're wrong.

The combination of "Look, I'm me and this is what we're agreeing on, and by the way if I missed something, we'll settle it this way," really goes a long way to helping you out.

The last thing I would say is as you go forward and get bigger, what you want is a lawyer who works with you the following way:

You write down what you want an agreement to do. You do all the hard work of saying you want it to do. And then you go to the lawyer and say, "All I am paying you to do is make an agreement that does this. I'm not asking your advice about how I should win. I'm just asking you to make the agreement do this."

And it's going to be a long time before you need what Google has. Google has so many millions of users that they have to worry about edge cases.

You don't have to worry about edge cases because the combination of your handshake and your arbitration eliminates all of that. But I'm not a lawyer and if I'm wrong, I don't want to hear from you.

Being Memorable

The thing about the vast majority of imprinted junk is it's invisible. The reason it's invisible is because it's expected.

Think about everybody here. How many people in this room did you shake hands with? Almost everybody. How many do you remember shaking hands with? No one. Because hand shakes are invisible.

On the other hand if when you shake hands with people you're going like this [exaggerated hand shake], people are going to remember that for a really long time because you did something that was unexpected.

When you came to something with only 20 people in it, you didn't expect a custom mug with the agenda on it. That's why I did it that way.

Think about how are you going to give something to people that they are going to remember.

For example, you could go to the bank and get one hundred Susan B. Anthony dollars. Or not even Susan B. Anthony, but go to a coin store and pay $2 for a hundred John F. Kennedy big giant things.

When people say, "What are you doing?" you hand them a big fat coin. It doesn't even have your name on it.

And they say, "What's this?"

Now you have a chance to tell them a story. I can't off the top of my head think why you would give them a Susan B. Anthony dollar, but you could probably come up with a good one.

And what are they going to do? Spend it? No, they're not going to spend it. They might make it their good luck coin. In fact you could say, "Always keep this in your pocket because blah, blah, blah."

In my bag there is a coin I gave to every single person the day I sold my company and there's a guy Ted, I see him in New York probably once a year at random on the street, and it's been 10 years. Every single time he reaches. He still has it and he can tell me the story I told him when I gave him the coin.

The point is it doesn't have to be some fancy thing from China or imprinted.

It can be an object.

It can be a Popsicle stick.

And you're just always giving out lollipops or popsicle sticks and there's a story with it. That is the icebreaker that you use to be memorable as opposed to all that trade show junk that means absolutely nothing.

Naming a Business

Ok so I have three posts about this so you can Google it on my site. The short version is you start with two kinds of names. Names that mean something. Names that don't.

Names that don't: Amazon, Starbucks, Nike, Apple. They don't mean anything until the company comes to exist.

Whereas WorkFlow, I'm making that one up, a company that does work flow solutions mean something before the company even existed.

If you come up with a fanciful name it's a blank slate and you get to fill it with meaning. The bad news is for the first year you have to explain what you do.

On the other hand if you come up with a name that means something, then you don't have to explain as much in the beginning what you're doing. It fits into a box.

The vernacular in an industry matters.

On the web if you have a name that means something, people don't think as much of you in the investment community because all the people who came before you—the Googles, the Yahoos, the eBays—didn't mean anything.

So when you say, "We are SalesForce.com," I'm like, "Oh, you must not be a big idea because you told me what you do already." The position in the minds of the investor / journalist shifts based on which name you pick.

The second thing is URLs still matter because a lot of people who don't know how they work won't know to type .ly at the end or whatever. There's still more value for a consumer brand that ends in .com.

Then you have to think about "What can I get?"

Every English word, every one with six or fewer letters is taken and I think seven or fewer letters is taken. Every single word. So it's going to be expensive, but you might decide it's worth it to go buy this.

I'm going to tell you the 10-second version that Squidoo was going to be called Fisheye. And Fisheye.com was taken.

The guy owned a fishing boat in the Caribbean and I offered him $10,000 for Fisheye.com and he said "No" because it was the name of his one fishing boat.

Anyway, my flight got canceled. I misdirected my plans. I ended up on the Cayman Islands teaching my son how to scuba dive. It was right after a hurricane. We were driving to the hotel and shipwrecked on the shore I saw the Fisheye, the boat. Literally. I saw the boat. True story. But by then I already named the company Squidoo so Fisheye didn't happen.

The easiest way to get a domain is to take two English words and put them together. Redeye. Fisheye. Upsidedown. Thisiswherethecoolpeoplehangout.com.

Length isn't your issue. Length is free. You can have it be as long as you want *as long as we can remember it.*

Again, depending on how big you want to be and how your want your customers to perceive you early on; you're going to pick a name that satisfies those goals.

You will not listen to your family.

You will not listen to your trademark lawyer.

You will not listen to anybody who thinks they should tell you stuff.

Everyone has an opinion about your name and especially about your logo. It's none of their business. Ignore them. That's not the point. They don't know what it's going to mean, the same way you don't have a poll before you name your kid. You just name your kid and their name comes to mean something over time.

Final Words

Ok, so on that note we're going to wrap up for the day. The last thing I want to say to you is—I made a t-shirt for my new book. I'm going to show you what it says and I think you're all ready to hear it. This is where you need to head.

“Fly closer to the sun. Nothing bad will happen. I promise.”

Thank you guys for coming out.

ALSO BY SETH GODIN

The Icarus Deception

V is for Vulnerable

Whatcha Gonna Do with That Duck?

Linchpin

Tribes

Meatball Sundae

All Marketers Are Liars

The Dip

Free Prize Inside

Purple Cow

Survival Is Not Enough

Unleashing the Ideavirus

Permission Marketing

The Big Red Fez

The Big Moo (editor)

Small Is the New Big

Poke the Box

We Are All Weird

Find them all at sethgodin.com