

# The Perry Marshall Marketing Letter

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## “My First Website”

In my seven years as a direct marketer, my product launch *failures* could be counted on one hand, with fingers to spare.

Few marketers can say that.

One might accuse me of not taking enough risks, that perhaps I should have failed more. That could be true. However there is a powerful lesson here.

The reason my own marketing projects in the last seven years have had a 90+ percent success rate is that I have only gone into markets that I already understood. My first website, [usedtapes.com](http://usedtapes.com) (the subject of this newsletter), my *food fun and fieldbus* days at Synergetic, where I helped firmly establish the “Anybus” product for HMS of Sweden and built a large OEM business for Hilscher of Germany; DeviceNet Boot Camp and DeviceNet Detective; my present consulting business and the Marketing System, the White Papers Course and the Google Toolkit – *all of these have been successful because I understood the person I was selling to. In fact in every one of these cases I had already, at least to some degree, been the person I was selling to.*

Don't miss that crucial point. If you're trying to decide what business to go into, my first suggestion is to go into a business where you can sell to people who write the same things in their diary as you used to write in *your* diary.

Now most people who buy my products are small business owners, pulling the funds out of their own pocket. I also have a minority of customers who are employees, sales people on commission who are buying these tools so they can do their job better. In most cases they too are pulling the funds out of their own pockets.

Rare indeed is the employee who shells out his own dough for training and education. (I was one of those – and although I was sometimes successful in getting my employer to pick up the tab, most of the time it was on my dime.)

I can tell you two things about employees who are willing to fund their own education:

- 1) They're not going to be an employee for long. I can predict with great certainty that they'll be running their own show in a few years, if not sooner.
- 2) They've got a skunk works project going on the side, which helped them justify the purchase in the first place. And that skunk works project, because they *own* it, because they *love* it, is the *real* anvil on which their experience is formed. Their knowledge is not superficial, it is rooted in a deep emotional connection. That skunk works project actually pulls their day job forward, by accelerating their learning. (It's worth mentioning that this is equally true of engineers and software programmers – the best ones do it in their spare time too.)

Let me tell you about my skunk works project, my first online business – [www.usedtapes.com](http://www.usedtapes.com).

Before I tell you about the website, though, I have to tell you about the market. The market itself is a strange story that goes back even further.





There were many, many things that caused the exquisitely crafted illusion to eventually shatter, but one of them came from an odd place. It was a book by W. Edwards Deming, known as “The Father of The Quality Evolution” – a manufacturing and quality control guru who helped Japan rebuild after World War II.

Deming said, **“People want to succeed. They want to do a good job. They don’t like to turn out lousy work. If your people are consistently failing, it’s not their fault – it’s your system’s fault.”**

Did that statement hit me like a ton of bricks? No, not at the time. *Actually it slowly melted its way down through my brain like a hot steel ingot on a frozen lake.* Every time they would pass around the Pink Koolaid and tell all us yearning, starry eyed minions that the System was flawless, that The System Is The Secret, that *The System Fails Not*, I would look around and see the 99% failure rate and be reminded that someone must surely be jesting.

(Most people never verified for themselves that it didn’t actually work, because they didn’t do anything – they just bought tapes and books and went to seminars, which was all anybody really needed them to do anyway.)

Reality in the Amway business was a brilliantly contrived, well-guarded secret. A devious marketing *widget* as I now say in my marketing parlance. As much as half the revenue and *all* of the profit was in the tape, book and seminar business, not the product business. The product business and the catalog and everything else were just a legitimizing front-end for the largest cassette tape business in the world. It was really a Ponzi scheme. The tight-lipped secret, however, began to unravel with the unleashing of the Internet.

### **The World’s Greatest Con Artist?**

As amazing as it seems today, that whole tools business was kept secret from *millions* of people for many years by a small echelon of power brokers. Dexter Yager, Amways’ #1 distributor, is arguably the greatest con man of the 20<sup>th</sup> century. Actually, Dexter had the entire company in a strangle hold, and only the Internet was able to broadcast the truth of what was going on.

Valuable insight: An ordinary con man picks your pocket and runs away. A good con man rips you off and you figure it out two weeks later. A truly brilliant con man lies to you and vacuums out your wallet like a demon lover, while you thank him for giving you the honor of accepting your money.

Yes indeed, how the Internet changed all that. Everyone with an Amway horror story was posting it on a message board somewhere. And I was paying attention. I was skeptical of the criticism at first, because honestly, 95% of it was just sour grapes from a bunch of losers anyway. I could see right through it. But the other 5% was illuminating, accurate, and frankly shocking. At one point I found a website by an Emerald in the business, Jeff Probandt, who told the whole sad story from an insider’s point of view, complete with audio recordings of voice mails and pictures of his checks.

Suddenly all the puzzle pieces started falling in place in my mind. His description of the inside matched the cracks on the outside in a chillingly familiar way. I asked my upline Diamond, George, if we could discuss this. He consented. We set up a phone appointment and I called him.

### **Superman Flinches**

To me, George was Superman. He could walk on water. He, one of the 100 most successful people in the entire MLM *industry*, me just a struggling Marker Man. Actually to this day George is one of the smoothest, most hypnotic sales people I have ever encountered. He could mesmerize thousands of people on stage with his winsome smile, his eloquence, his tapestry of fascinating stories. But that



afternoon on the phone, he was a different George. Sounded downright *nervous*. He attempted to be forthright, but the tone of his voice and the questions he skillfully avoided telegraphed that there might indeed be trouble in paradise.

As the Internet was boiling with AmRage, and the faithful were dodging direct questions, I recognized a business opportunity. The opportunity was this:

- 1) Thousands of people were getting in Amway, and 100 other MLM's, every single day.
- 2) Thousand of people were quitting Amway, and 100 other MLM's, every single day.
- 3) The people getting in were buying tapes.
- 4) The people getting out were sticking their tapes in their garage.
- 5) Therefore buyers and sellers needed to meet. I could help them do that.

So I registered the domain *usedtapes.com*, conceiving it as a classified message board. I found a programmer and set it up to automatically post WANTED and FOR SALE ads:



#### Online Haven for books & tapes

**Usedtapes.com** is the place where information-hungry people find, sell and swap how-to, educational and motivational audio programs, books, videos, books on tape, language tapes, and tools Network Marketers and salespeople

#### Keep it Circulating

There are things you want that are collecting dust on someone else's shelf. And you have materials sitting on your shelf that someone could really use. UsedTapes.com can make both of you happier! Browse this site (use the search utility if you like) Pay attention, because you'll also find interesting things that you weren't looking for!

So now I had an automated website that inherently had plenty of growing search engine fodder. I optimized the site for the phrase *amway tapes* and the traffic started coming in.

OK, so how was I going to actually make money with this? I considered making it some kind of distribution operation, but that would be too much hassle. I decided to sell a book on the site instead – Dan Kennedy's book *Prospecting Sucks*. (Ah, the irony – making money by selling a new book on a used tapes website, the book dispensing advice that was totally contrary to what was on the tapes. Gotta like that.) I wrote a sales letter for that book. It was my very first successful sales letter. It converted 4% of visitors to buying a book for \$18.95 – that's good by any standard. This was no e-book, either – I wasn't that sophisticated back then. I would buy the book from Dan's publisher for \$7 and mail it out. If you want to see the letter, go to [www.usedtapes.com/prospecting.htm](http://www.usedtapes.com/prospecting.htm). Also I had a marketing newsletter signup where I started collecting email addresses and sending out a newsletter every month or so.

I also added another twist. This roiling controversy on the web about Amway tools vs. product sales, and the dirty little secrets, was a pretty lopsided affair. Everyone was attacking, but hardly anyone was defending. Why not?



I figured if the world was a halfway rational place, there must be some kind of defense for all of this. Maybe leaders weren't speaking up because it was unsafe to do so. I decided to join the controversy. I put up a page "The Amway Diamond Challenge" at [www.usedtapes.com/amway](http://www.usedtapes.com/amway) inviting people who were *in the know* – (they had to have been direct distributor or higher) so speak out on this issue. They could even be anonymous if they wanted to be. No sour grapes stories, only legitimate opinions from experienced people.

I got some people to play ball – some of whom were extremely critical of the whole thing – and started getting links from the Anti-Amway websites. Traffic started *pouring* in. Hot topic!

We're selling more Prospecting Sucks books, thank you very much.

The emails I got from people who'd been in the business, been to the top and were sometimes in, other times entirely out – told the *real* story. I had two people from two different countries tell me they received, um, threatening phone calls after telling their upline they were leaving. *'You better not let the cat out of the bag, pal, that will be very bad for you, if you understand what I mean...'* Scary stuff. Wasn't exactly the refuge of family values, free enterprise or God Bless America that I thought it was in, was it?

### The Quixtar Meltdown

The Internet brought devastating consequences for Amway. Their new online business Quixtar opened on 9/1/99 with a resounding thud, and the thundering damage of public opinion on the net was excruciating. Their sales were in a free fall, dropping by hundreds of millions of dollars each year. They were laying people off in Grand Rapids, Michigan, and the 'best business opportunity in the world' was hemorrhaging. The reasons why were becoming obvious to almost everyone.

A couple of years ago I called a gal in my old upline, who was *still* slugging away in that business after **18 years**, at one time pretty successful but now almost back to zero. She was honest with me about the fact that things were not going very well. I said to her, *Every time you ask George why your business isn't working, he tells you the system works just fine, and you just need to improve. You need to get better. You need to read more books and listen to more tapes and drive more miles and draw more circles. But you know what, Sharon? The problem is not YOU. The problem is the SYSTEM. It's not your fault. The system doesn't work. It's their fault, and they're lying to you. The answer they're giving you is the only answer they can give you, because if they told you the real answer, you'd leave.*

### Mental Anguish

When I spoke those words "It's not your fault", there was silence on the line. I heard her choking back tears. Vivid flashback, recollections of my own huge stone of failure and frustration that I drug around all those years – all those times people whom I respected and admired would say to me *'You just need to be a little better, Perry. You just need to give this thing a little more Mojo. You're a winner, man, you've got Diamond written all over you, and I know you can do it. You just need to show that plan with a little more conviction, a little more belief, Perry. You can do it.'*

*I could relate. I had been on the verge of tears many times myself. I couldn't stand looking in the mirror, knowing that I had nothing to show for the last five years of my evenings and weekends, knowing I was no further ahead than my comatose friends who were just watching Monday Night Football, knowing that my marriage was creaking and straining under the pressure of this dark dream, that my wife was enduring considerable sacrifice for something she no longer believed in.*

Sharon had the best friends money can buy, but she was running out of money. And they were running out of answers.



The irony of all this is that *she* was a great friend. Almost all of those people were and still are friends. But few of us were making any money. We were experiencing the camaraderie of mutual struggle and hope. It formed a lasting bond, but not without a distasteful memory of shared disappointment.

### **Confrontation after the Magical George Show**

Pivotal conversation along the way: I'd just come back from a meeting the night before, had driven from Chicago to Louisville, Kentucky and back to see George's Magic Show, gotten pumped up with more fairy dust. Now I'm talking to Laura in the car. Keep in mind she's sick and tired of this but still maintaining her composure. She's still believing in her husband, despite the fact that the year before, after business expenses, we'd made I think \$25,000 (i.e. \$35,000 from my job, minus about \$10,000 of business losses). Despite the fact that we were more than \$30,000 in debt.

I'm saying to her, "I know I can do this, I know I can get good enough to make this work, I want to do this, I don't want to quit now. I want to be as good as George. I *can* be as good as George."

She says to me, "Perry, I believe you. I really do. I think you can eventually figure this out and make it work. I believe that you can be as good as George.

"But can *Jose*?"

Jose was a guy we sponsored. Jose was a *great* guy. But could Jose ever be as good as George? Fair question.

"Actually, well no. I don't really think Jose can be as good as George."

"So then after you get as good as George, what are you going to do about Jose? Are you going to pump him up and tell him he can do it, even if you think he can't?"

### **There's That 'Giftedness' Thing Again...**

I realized right then that Amway was just like any other profession, talent or skill – that some people had more of a knack for it than others, and *of course* – that empty jingoism of "Anybody Can Do It" was patently untrue. It was only something that could be made to *appear* to be true, true in theory only. It *\*might\** be true for me (contrary to all my experience up to that point) but it was doubtfully true for most people. Honestly I think it's only true for maybe 1000 people in the whole world.

The entire premise of MLM crumbles into sawdust when you finally figure out it is just not something that everybody can do. (I'm not sure there's *anything* that's possible for anybody to do, that is commercially viable.)

Laura continued, pointing out that even if this thing *did* work, at best it would take two more years before I could let up at all; Tannah was 2 years old and I wouldn't be seeing much of her until she was 4. Plus there was no guarantee that my results would be any different at all.

*The hot steel ingot finally broke through the ice, and plunged towards the bottom of the lake.*

That was that day that I mentally let go of the idea that I was going to be successful by following in the footsteps of George and his magical friends. (Hindsight: Had I continued to pursue the business that day, instead of mentally quitting, I would have ended up with a *divorce* and a *nervous breakdown*. No joke.)



I had Dan Kennedy's Magnetic Marketing System, and was actually experimenting with multi-letter sequences, using direct marketing to get prospects for my MLM business. And it *was* actually working. But I was also able to see that if one wanted to use direct mail and smart advertising to make money, there were far more profitable things that one could sell than an MLM deal.

So here I am with this website. In the process of building it I've learned Search Engine Optimization, what keyword and content tricks work for SEO and what doesn't; I'm working inbound linking strategies, email newsletter techniques, writing sales letters, doing upsells, reading e-zines and newsletters on Internet marketing – and going to work every morning and applying this knowledge to selling DeviceNet and Profibus and all that other techie stuff.

The knowledge I gleaned from my website on the side was driving an entire company forward. I knew what worked on the web because I was working double time. Funny thing is, UsedTapes.com *never* brought in more than a few hundred dollars a month. It just wasn't that ambitious of a project, and I certainly wasn't slaving over it. Actually most of the time we just processed some orders every week and made about \$75 an hour doing so, with the whole thing running on autopilot most of the time. At various times I'd sit down and obsess over it for awhile and then leave it alone for a few months. My main focus was my job, which in hindsight was the right priority. But that few hundred dollars a month helped us make the mortgage many times. It really was a big help.

Must mention: This was 1999. I was running one of the few profitable websites in the entire world. Not that there weren't others, but I'm sure I was in the top 3%. Take out the porn, gambling and computer sites, I was in the top 1%. For the next two years, *most* of the web world was running deeply in the red. Mine was profitable almost from the very beginning.

So while much of planet earth had its head stuffed in the Dot Com Bubble Cloud, I was following the Path of Prudence. And the most important advice I could possibly give you that I learned from this experience is:

## **Make one dollar.**

**Just get your website to make one single solitary dollar, one actual, honest dollar of profit, and the hardest part of the whole process is in your rear view mirror.**

For a B2B website, you can just as easily say: Collect one sales lead. Just one. It only gets easier after that.

### **Engineering Calculus vs. Business Arithmetic**

Back when I was a young impressionable Ambot, I prided myself on the fact that I had three semesters of calculus, plus differential equations, linear algebra and probability theory. I was one smooth engineering dude.

But in Amway I only did the arithmetic they gave me permission to do. The sales and marketing plan? I had that math memorized. But it took several years before I acquired enough common sense to sit in an auditorium or coliseum at a business function and *do the math*. How many people here? How much did each person pay for their ticket? How much do they pay for the speakers and facility? How much are they selling in the back of the room? Where does all the extra money go? How come they never say anything about *that* money?

And even more importantly, what was *my* arithmetic? In Amway they taught you that the husband should always handle the checkbook, not the wife. Why did they teach that?



Well it sure wasn't because they wanted men to be better financial managers. It's because women add up the tape and book bill and object, but men don't. It was too depressing to look at my balance sheet, so I only did once a year, at tax time. (*That was truly painful!*) Laura handled our checkbook, not me.

There is yet another kind of arithmetic. What's the *big* picture here? If I've got 100 Amway Distributors in a room, how much are they *all* spending on tapes and meetings and gas, and how much are they *all* making? That's the most absurd comparison of all. I eventually realized that Amway isn't even a zero sum game, it's a negative sum game. For every one dollar the herd makes, they spend five. No kidding. Most people there made *negative* five bucks an hour. Myself included.

The only industry in which that can continue to happen is "BizOp" – business opportunities, where profits all come from the losses of other people, and where it is not really even possible to make a profit selling the actual product.

A little arithmetic would have saved me from all that. Didn't even need calculus.

Still I must say, all this stuff I've talked about ultimately proved to be very valuable to me. The selling skills I acquired in Amway still serve me today, and in the grand view of things, those lessons of foolishness weren't as harsh as they seemed at the time. I learned my lessons and today when I get out of bed, I can actually do pretty much whatever I want to do. But my word to the wise: Do the math. Numbers don't lie.

### **Swallow The Bitter Pill, and FAIL FAST**

Just this afternoon I finished a rather unusual fast-start consultation with a new member. The guy had sent me some of his marketing materials and wanted to discuss the advertising for his new franchise. He'd bought the right to sell a certain kind of office product anywhere in his state, for \$14,000.00. This product is something that you can buy from a thousand different people. His cost, \$50 per unit. Selling price on the Internet, \$40 to \$60 per unit. Offline, a little more. Cost per click: \$4-\$5 for a number one position.

Which means that companies who sell this item only profit from multiple units and repeat purchases – not from a one time sale.

He was expressing doubt that this whole thing was going to even work out at all. He'd thought people would jump at the chance to buy this but he wasn't seeing much interest out there, and he'd quit his job and paid the fourteen grand to have this business.

I quickly saw that this was not going to be a good-news kind of phone call. So rather than critiquing his marketing materials, I asked him about the franchise in general and what he was getting for his fourteen grand. Things started going downhill as he described the price points, the margins, and the fact that as soon as he'd wired them the money, the eager assistance from the rep and phone calls and customer service stopped dead cold.

That whole franchise boils down to five questions:

- 1) Are people emotional about the problem this product solves?
- 2) How much does it cost to acquire a customer?
- 3) How much can you sell this product for before you encounter a lot of sales resistance?
- 4) How much can you buy this product for at wholesale – even if you're not "loyal" to your franchise?
- 5) What's the lifetime value of a customer?



The answers were: 1) No, 2) \$10 to \$100, 3) \$50, 4) \$40, 5) Don't know.

Bad arithmetic.

As we were discussing this, the word "integrity" came up as he described what to do about this – whether to continue or not. He wanted to have integrity and not quit something he shouldn't quit on. I stopped him mid-sentence and pointed out that integrity is about being honest with people – but it has nothing to do with "quitting" or "not quitting" a particular business.

I don't think he'd made that distinction before.

I have to wonder if the person who sold him this deal, who had little integrity, might have even planted this seed in his head? Or maybe he got it from Amway, like I did, where "Winners never quit and quitters never win"?

He described a couple of sales opportunities he was working on, which had possibilities of bringing him a lot of business. I told him to pursue those, as he had a credit with the company and would recoup some of his investment just by making a sale. But based on questions 1-5 he probably shouldn't be in that business in the first place and the best thing he could do was accept that reality as fast as he could and move on.

He sounded kind of depressed. (I don't like delivering bad news, but I will if I must. Glad I ain't a cancer doctor.)

### **What to do, what to do next?**

So here he is, he and his partner are out fourteen grand with no cash and no real business. What should they do?

Tricky question. Advising people in desperate situations ain't my favorite thing, but I did have some tips for him.

The opening statement in today's newsletter, on *always selling to a market you already understand*, was the guiding force behind my first question, which was "What corners of the world have you already inhabited, so that you can go sell those people something?"

Didn't take long to find out he'd sold advertising space for 15 years in a particular industry and he knew all kinds of games, cons and tactics that ad reps in that business use. And it turns out we both know of a Center Of Influence person in that industry who deals with small business owners. Presto, a perfect joint venture through which he could do some consulting – perhaps helping customers negotiate better rates with their vendors. All he has to do is a teleseminar for Mr. Center Of Influence and his customers, and he can scoop up some business.

Created that out of thin air. No, actually that capability was there all along, all he has to do is present his talents to a hungry audience that already exists.

### **The Shell Game of "Integrity"**

One of the best sales books I've ever read is about 30 years old, it's called "Winning Through Intimidation" by Robert Ringer. The first thing I have to tell you about this book is that if you don't like the title, then you're precisely the sort of person who most needs to read it.



Ringer tells a story of hooking up with a guy who was constantly talking about “Integrity” from the very first phone conversation. He waxed eloquent about the necessity of honesty and trust in all business dealings.

Ringer didn’t catch on to his game, and the guy managed to prevent him from performing some due diligence. In the end, the guy screwed him out of every penny.

Lesson: When someone starts talking about “integrity” early in your business deal, it’s a red flag. When someone gets up on a stage and pontificates at length about honor, trust and loyalty, it’s a very reliable sign that they’ve got their hands in the cookie jar. Nowhere is this more true than in the MLM business, which relies on honorable, loyal, trustworthy distributors who will do lots and lots and lots of hard work (think “Protestant Work Ethic”) in the name of Truth, Justice and the American Way – in the name of a noble cause. The drama, the pageantry, the glory and the recognition, the laughter and the tears of joy, are all just part of the con.

Eric Hoffer wrote an absolutely brilliant book about this called *The True Believer: Thoughts on the Nature of Mass Movements*. Hoffer’s book describes the cult-like phenomenon of MLM to perfection, and in fact has many important insights that will be valuable to any marketer, or for that matter, any student of humanity. It studies politics, religion, military and political movements with a rare degree of street-smarts.

The only bone I have to pick with Hoffer is his extreme level of cynicism. From what I can tell, Hoffer didn’t think that there was *any* such thing as a cause truly worthy of one’s devotion – that if we were all rational individualists, we would never devote ourselves to any cause or movement beyond our own limited, selfish interest. I vigorously disagree. Buried underneath his brilliant analysis is a hidden assumption that I believe to be false. But regardless of my quarrels with his book, it is a powerful study in human nature.

### **Tapes, Books and Seminars: Bogus vs. Legitimate**

Any astute person who has read this far will surely ask the question “Hey Perry, if you’ve got such a big gripe about tools in the MLM business, why are you in the tool selling business?”

Answer is, I don’t have any problem with tools, even in the MLM business. What I have a problem with is a business that has no viable retail function. The business must be inherently capable of funding its own educational expenses. There must be a way to make a profit outside of the books and tapes. If all the money has to be made by selling people seminar seats, who in turn have to fill more seminar seats, it’s only a pyramid scam, and someone always ends up losing. *Real business is always win-win.*

Actually I think that one of the side benefits of MLM, even with all the dead bodies it’s left behind in the last 40 years, is that it teaches people the value of personal discipline and ongoing education. People in MLM learn that self-improvement is a great virtue, and that alone is arguably worth all the pain and suffering. (Was for me, anyway.) When they tell you to listen to a tape every day and read 15 minutes in a challenging book every day, that advice is absolutely golden. It’s true wisdom. All you’ve got to do is make sure you’re reading and listening to *accurate* information, not motivational twaddle. The old adage really true – 5 years from now, your life **will** be the result of who and what you’ve been reading and listening to.

At some point, I can’t tell you exactly when, I became persuaded that being in a business like the one I’m in now would be a very honorable thing, a positive force in the world. Why? Because the Return on Investment of a truly sound marketing education is just explosive. All those MLM tapes were mostly teaching me a bunch of techniques that didn’t work anymore. A true marketing education is focused on underlying principles. True principles apply to everything and they don’t ever change. Actually, the



marketing education played a huge part in helping me unravel all the lies of MLM. I soon understood exactly how and why I was being manipulated.

It didn't take Laura long to figure this out. See, women are smart. They discern cause and effect better than men. I would mail out sales letters and people would fax in orders. I would write magazine articles and sales leads would come rolling in. I'd send out emails and people would respond. She started to see that every dollar I spent on my marketing education put ten and hundred dollar bills into the checking account, weeks and months later. Even after all those Tapes, Books and Functions, she still was not stupid. One day when I said "I want to go to a \$1500 seminar," she said, "Do you think it will pay off?"

I said, "Yeah, I think so."

She said, "Then I think you should go."

One day when I said "The company's being sold and they're offering me a job." she said "You know how to market and I think you should start your own company now." It wasn't my idea to jump out of the nest, it was hers.

She's a doll.

We just celebrated our 3 year emancipation anniversary on October 12. Three years ago on that day, I left for good. On that day my friend, copywriter Dave Garfinkel wrote me a note – he said

**Happy Anniversary, Perry! :) Doesn't sound like you miss the dilbert life at all..**

(And I said:) Um, no. What I "don't miss" the most is all the fighting and politics.

I'll never, never forget -- a couple days after the exodus, had cleared out a corner in the basement, set up a desk with my computer and playing WFMT on the radio.

I come down in the morning and sit down.

The phone ain't ringing. My email box isn't full with stuff I've gotta do and questions to answer (also mildly shocking, that, but would soon change of course), nobody yelling at me, nobody arguing about anything or reducing my commission; not having to run run run all the time. That classical music was almost shocking in its serenity. The sunlight coming through the window, instead of a fluorescent light over my head in a windowless compound.

I'll never forget that.

Three weeks later, the first paying client kicks in. 'This thing's going to work. I'm not going back.'

And friends and neighbors, I've just gotta say - God bless my lovely wife for putting up with me all those lean years.

### **Concise Advice**

On the subject of education, mentoring and wisdom, everything you need to know can be boiled down to two things:

- 1. Buy Good Advice**
- 2. Act On It.**

There's hardly a situation in life where those two rules won't help. And with that in mind...



## Sage Advice for Entrepreneurs from Andrew Goodman

In the world of Google AdWords e-books and consultants, Andrew Goodman is my "competitor." He's the "other" AdWords guru out there, based in Toronto. His first book actually came out a year before mine. Rivals may have their rivalries, but I have great respect for Andrew, his knowledge, and his contribution of sensibility to the often irrational world of Internet marketing.

Andrew recently wrote an article that I just thought was spot-on brilliant, deeply insightful, and 100% relevant to everything I've been talking about today. Stick around and listen to Andrew. He's got some very wise words for you here.

### Turning the \$100,000 Corner

By Andrew Goodman

Although we often hear that small business is the heart and soul of the economy, it gets a disproportionately small amount of ink. Sound advice is tough to find. Maybe that's because every situation is so different. More likely, it's because information is filtered through the lens of those who finance business. It's tough to make a profit lending money to "mom and pop," or at the very least, there is little incentive to help them actually succeed. So that's not who runs the ads in the magazines. And that's not what they write about. Big deals and big money rule the business press.

Watching Google AdWords fund the growth of one of the world's largest technology companies has always been so interesting to me because so many of Google's 280,000 global advertisers are small accounts. It really is a huge engine of growth. According to OECD estimates, in Canada (just for example), small businesses contribute 45% to the nation's GDP. Some are quite small: there are 1.1 million firms with revenue under \$100,000. And small firms created 63% of new jobs last year.

Many of them are the smallest of the small. 88.6% of these companies have 1-9 employees.

#### The \$100,000 Reality

When you have revenues under \$100,000, of course, what you ultimately have at the end of the year is losses, until you turn the corner. In life, some are better able to handle those losses than others, obviously. The straightforward advice you might get from an expert -- have a business plan,

get a loan, etc. -- can only take you so far. We can't all plan every detail, more so for entrepreneurs over the age of 40 who may be starting a second career. A "not atypical" client of mine, for example, was a former furniture company executive who pulled together a designer and a niche idea, and no doubt some financing to go along with his savings, to start his own outdoor furniture business. When he came to me, he wasn't much in the mood to talk of business plans and strategy -- each day was a hectic mess of details. More importantly, he had \$150,000 of inventory sitting in a warehouse. It had to be sold as quickly as possible. The website was built, but they weren't coming.

Well, obviously that's not optimal. It might even seem backwards. Luckily in this case, people love the product when introduced to it, and are more likely to respond when mailed a color catalog. A perfect job for Google AdWords! Soon, that inventory was moving. (The client partially paid me with furniture. Every time I fire up the BBQ and have a cold Steam Whistle Ale on that cedar bench, I think about his success story.)

No, there aren't very many good roadmaps on this bumpy road to small business success.

#### The "New" Entrepreneurial Education

I was heartened this week to see special supplements devoted to this ill-served yet huge market in both leading Toronto papers. In today's Globe and Mail, the *Report on Small Business* led with an article about more small businesspeople taking "entrepreneurial education" at business schools to help them understand what they'll need

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to do better if they want to grow. The article is titled "Out of the boardroom, into the classroom." Boardroom?? Anyhow...

The case study of a fledgling small brewery owner taking business courses was intriguing. *"We [Steam Whistle Brewery] had not really taken a five-to-10-year look [at our business]," acknowledged Mr. Heaps, a philosophy-degree graduate and son of the founder of Upper Canada Brewing Co. Ltd., which was acquired by Sleemans Breweries Ltd. in 1998.*

A story about how a regular person could learn to run a small business had turned into a story about how a brewery owner's son started a... brewery. Having a father who founded a brewery -- that's something you just can't teach. The story was suddenly a lot less interesting. I won't disagree, though, that Steam Whistle is indeed worthy of Heap's aim to make it "Canada's premium pilsner."

Most small businesspeople have a lot more to worry about than a 29-year-old brewery-owner's-son-who-starts-another-brewery does. And when you're worrying, you understandably make decisions based on instinct and emotion, not sound planning.

Every week, I talk with the owners of small, growing businesses who have only their gut to advise them on how much to spend on growth, and what to spend it on. Because few have the time, money, connections, or inclination to sign up for "entrepreneurial education," what happens, I think, is that they're guided by the cultural preferences and prejudices that leak into the rational part of the brain.

### **Fatal Simplification**

If you believe to what you read in the paper -- even in the business section -- life's financial decisions can be simplified down to spending vs. saving. In short, life is a struggle between profligacy (scary! yikes!) and caution (nice, good). Since the default value in American society is profligacy -- the savings rate has fallen from over 8% of income 25 years ago to about 1%, according to a story in this week's Sunday *New York Times* -- caution is held up as a virtue. So it's written up as "should we put that \$3,000 into an IRA, or buy that plasma

television?" In fact, for those whose financial canvas is the wider one of the business owner as opposed to the salaried worker, that's not the trade-off. Assuming for a second that no bank loan is in force, that \$3,000, if not spent on the TV, doesn't necessarily go in the IRA... because there is no \$3,000. That small business owner pays themselves \$3,000 less that quarter, or that month, to invest in some aspect of the business.

Elsewhere in the *Times*, there was a wonderful story about the children of migrant farm workers from Mexico who now operate California vineyards like the ones their parents toiled on. For such a story to unfold, clearly hard work is a given. Access to education for the children is a must. But at some point, it goes beyond hard work and saving. Savings and assets are risked to pursue the dream. The choice wasn't between the "stuff" and the retirement account. It was neither of those. It was investing in a growing business. It goes without saying that this is risky. You not only have to come up with the money to invest, you have to make the right investment. In equipment, marketing, people... all of the above, and in the right proportion. Hard work is a constant, but it can't erase bad decisions.

### **Getting Customers: Not Risky if it Works**

Probably, though, that risk is mitigated by one factor: customers. If every transaction is profitable, the business pulls you along and demands investment, but that investment is less risky than it might seem.

I ponder on these types of things in order to attempt to explain the behavior of those who claim to be small "business" owners, but who do not invest in growth. I chalk a lot of these seemingly random decisions up to a cult of caution that can be insidiously instilled in us. Financial columnists and our forebears alike may want us to believe that being careful is what separates the smart from the dumb, the comfortable from the broke. Really, though?

Although my family isn't particularly introspective -- we don't sit around the campfire discussing what our rather modest family tree got up to in the old days -- it's worth noting that while my 93-year-old grandma always wanted the safe route for me (a



nice school, a nice job as a lawyer or something, a nice membership at a golf and/or curling club), her own husband, the late great Grandpa Edric (Eddie) Goodman, went "into business for himself" in his mid-forties, with a partner managing to acquire a failing machine shop, the one he'd worked at as a machinist all his adult life (having emigrated from England as a skilled tradesman). He turned out to be a pretty big success by Goodman standards (although the standard is getting higher all the time). He got to drive a fancy car for a couple of years. But it was stressful. He died 30 years ago. I noticed recently that the company is still going strong, with fourteen employees.

### **“Don’t Believe a Word of It!”**

Newspaper reporters and grandmas have the luxury of counseling caution. Don't believe a word of it, I say.

When you're a smaller company, it's always difficult to make the decision to invest in software, outsource a project, or generally invest in growth. As a business owner, I know that. Right now, for one of the things I'm working on, I have to assess whether a \$12,000 investment in programming time is worth it. Not an easy choice. But it's a decision that needs to be made on rational grounds. The temptation is to go on gut feel -- "that sounds like a lot." Since the default of \$0 is always beckoning in the background, you can convince yourself that pretty much any level of expenditure from \$100 to \$100,000 "sounds like a lot." But in deciding whether to pursue a software purchase or marketing initiative, we're not dealing with personal consumption. **Many of us, by cultural inheritance, still equate a purchase not made with the virtues of parsimony and self-denial.** But that's probably not the way to look at this. It's more in the realm of making good or bad business decisions.

There's also a responsibility to meet other risk-takers halfway, isn't there? Too many of us expect to achieve certain objectives while failing to acknowledge that the freelance programmer (say) is taking a pretty big risk in working for multiple clients without the safety of a long-term contract. We've all heard about so-called entrepreneurs who push people around and leave a trail of unpaid bills. I can't stand those types.

### **Fashionable Frugality**

Frugality can be as much of a fashion statement as anything else. Isn't Ikea one of the largest companies in the world because it caters to one's need to feel "frugal"? Every time I spend an entire day cursing to put together an Ikea desk, I say "never again" will I be a victim of the fashion of frugality or the cult of "do-it-yourself." You do it yourself until it becomes irrational to do so.

Then there are the business owners who actually have a fair chunk of change -- from family, from a good job they left -- and enough spare time to invest in planning their assault on the marketplace. These can be the most prudent and rational investors of all. And that can be a big problem. The one thing that the children of the migrant farm workers knew, once they got going as entrepreneurs, was cash flow. They knew they had customers waiting for some of the grapes they were growing on their small farm. Things aren't all that risky when you have customers.

### **Burning Through Venture Capital**

The over-planners create the ultimate prototype, worry about every logistical detail. Unless you're burning through millions of somebody else's venture capital, this approach can be a real risk. A safer approach would be to get some willing customers first, then create the product. Or come up with some compromise strategy where at least some cash is always coming in.

One way or another, I've noticed, many small business owners become tight-fisted at precisely the wrong times. But when is excess caution actually a risk?

A friend of mine, an accountant with no dependents, just took out half the equity in his home to invest in the growth of his business. "I'm using my home like a piggybank," he said. Foolishness? I don't think so. Demand for his business is growing, so he's expanding it.

### **How Smart is This?**

Another friend of mine offers marketing consulting. A prospective client he spoke with this week



decided at the last minute that my friend's consulting services (reasonably-priced though they may be) were unaffordable due to a recent slowdown in business. I thought "fair enough, maybe his furnace is on the fritz and the kid needs braces," but on second thought, I said to myself, "Wait a minute! Didn't my friend just save him \$3,500 (per month) with a couple of pieces of free advice based on expertise he'd spend years honing? And the consulting services are unaffordable? How about taking that \$3,500 my friend had saved the prospect and using that, for starters?"

What a shame. But that's psychology for you. Many of us have to fight the tendency to hold the purse strings too tightly for our own good, lest someone out there "get the better of us," or because a spouse or smug columnist warns us against "foolish spending." But the distinction we sometimes fail to make is: a \$20 bottle of wine or a new \$400 set of dishes are truly "spending." That \$20 bottle depreciates pretty much to zero the minute it pours down your gullet. If you can't afford those things, you shouldn't rack up the credit card for them. But a marketing or software expenditure, surely, must be considered for their potential as investments in long-term growth.

### **\$200,000 on a Product – and No Market**

Here's one that really gets me. I'll be making an example of an entrepreneur I talked with recently, and since he seems like such a good guy, I feel a bit badly about this. But I've heard it before on numerous occasions. The story boils down to this. Between web design and related consulting, finding a fulfillment company, product design, manufacturing product prototypes, and other meticulous investing in the business, he plowed \$200,000 and two years into his business before approaching the marketplace to see if anyone wanted the stuff he was making.

In this case we don't have a failure to invest, but we still have overcaution. **It's like putting off the moment of truth because one suspects that maybe there really is no demand for the product.**

So when he finished going through his \$200,000 to the point where there was nearly nothing left to invest, he came to me. Needing help with

marketing, no less. Great, I thought. I like his product, and I like him and really want to help. Our \$2,000 lowest-priced consulting package should be a good fit.

Nope, he said. Money's really tight. (It is now, after he spent it all.)

He said: I was thinking more along the lines of the "AdWords campaign diagnosis" you offer for \$249. (Although I don't always have time to offer this service, I would have been happy to do it for him, and will be happy to do it for you if you request it. We also do a fuller diagnosis of your current AdWords + Overture campaigns for \$349. A more comprehensive diagnosis package that includes a website usability audit runs a bit more, up to \$999. Warning: after an in-depth review of your operations, we try to talk you into hiring us! If you're interested in the diagnosis offer, email me at [pagezero@gmail.com](mailto:pagezero@gmail.com).)

Turns out he didn't want the diagnosis, either. Just 30 minutes of my time on the phone. To be honest, that's not really a service I offer. I spend too little time managing this business as it is to be directly consulting in 30-minute chunks. It's not profitable to run a consulting business based on 30-minute one-off consultations, believe it or not. :) Not only that, but I can't be particularly effective in 30 minutes, and might wind up giving poor advice and come to regret it later.

As nice a guy as he was, I agreed to do it. And I don't mean to offend the gentleman, but it really made me wonder.

If the whole initial investment in getting a business up to the starting line is just a "cost" with little more than high hopes attached, how are you going to be able to fund true profit centers, like hired help or consultants, software, advertising, and other "kick it up a notch type" costs, when they arise?

### **Offended at the Stupidity?**

So I asked myself this question, then answered it: should I be **offended** that someone openly told me they blew through \$200,000 to get their business to the starting line, and is willing to risk less than \$100 for my time? The answer was "of course I should!"



As a professional who cares about the growth of client businesses, I'm baffled. As a professional whose services are meant to be a profit center for clients amidst a harsh and deceptive world of "cost centers," I'm frustrated. We can all do a lot better.

I get the feeling some people just weren't cut out for the concept of marketing. My father needed some wood ("need any wood?"... well, Dad needed some), so bought a face cord from a farmer. Pointing to the huge phone number painted on the side of his barn, advertising the wood, Dad said "so I guess if I need some more, I'll just call you at that number." Chuckle. Since it was so obvious, a number painted about eight feet high, with the word "wood" next to it. The farmer looked long and hard at my Dad like he'd been sent by aliens. "That's not the number," he said, and his tone and facial configuration didn't lack credibility.

Five years after the incident, I'm thinking maybe it really was the number.

### **Keep Dreamin'**

Sometimes one doesn't know whether to laugh or cry. I talked with the founder of a mid-sized web hosting company two years ago (you know web hosting, that industry that is so competitive that click costs are brutal, like \$5). Told him the low, low price for our consulting service and gave him the scoop on what AdWords was all about. "No," he protested. "We don't have that kind of money." Then he told me flat out that he and his partners had burned through \$3 million of venture capital and there was about \$100 left in the bank. He explained that he would basically try to learn as much as he could by calling people like myself and trying to pick their brains. And to avoid spending any money at all, he was basically hoping that free search engine traffic would get them a bunch of new customers. Like no other web hosts on the planet were optimizing their sites for the search engines.

Wouldn't that be great? If business growth was something you could turn on like a tap, without risking a penny?

Let's face it. To grow a business, unless you're using loads of someone else's money, you'll be

risking your own shirt in one way or another, and that means some little bell will always go off in your head telling you to be "careful." But that instinct is no substitute for sound planning and proper allocation of resources. I fully realize not everyone has the resources to really operate a business. But then, by definition, they are not **in** business, and should not be going around seeking "business advice."

### **Good Advice Ain't Cheap**

The people and processes that stand to help you the most -- be it software or human expertise -- don't come cheap. (Hell, have you seen the price of wood lately? But if you want fire, wood helps.) The question should simply be -- are those investments going to be profitable? Can you get anywhere significant without them? Are you really out of cash, or just squeamish about credit because your spouse or favorite financial columnist says you ought to be?

During the height of the dot-com boom, I remember laughing at those crazy kids from the University of Ottawa who racked up \$150,000 of debt on as many credit cards as they could get to start up an [online textbook business](#). They'd swarm campuses in orange jumpsuits, greedily chasing the bubble. So where are they now? Assuming the company failed, even, I'd hazard a guess they're somewhere, doing well and pulling down Silicon Valley salaries. Or maybe they went back to business school to learn how to plan better. :)

So on my own conundrum, I think I've made up my mind. I'll proceed with the \$12,000 investment in programming time, but only after an assessment that considers the potential return on investment of this investment as against similar options, the opportunity cost of not proceeding, and a more gut-feel guess about the intangible benefits of developing this particular mousetrap. If I don't build it, somebody else will, and future customers might choose somebody else. So I'll exercise due caution, but bearing in mind that nothing begets nothing. And for a business, there's nothing worse than nothing.

