



**SPI 244**

# Bootstrapping a StartUp with Nathan Barry from ConvertKit

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Pat: This is The Smart Passive Income Podcast with Pat Flynn, session number 244, 244, 244.

Announcer: Welcome to the The Smart Passive Income Podcast where it's all about working hard now, so you can sit back and reap the benefits later. Now your host, he wants you to move to San Diego and hang out, dude, chilling, Pat Flynn.

Pat: What's up, everybody? Thank you so much for joining me today in session 244 of The Smart Passive Income Podcast. Thank you all for your birthday wishes as well. I just turned 34 and I'm feeling young as ever, feeling fit, feeling happy, feeling stress-free despite having many projects going on. You know what, those projects fuel my happiness. I wouldn't be doing them unless I was happy and, hopefully, you're working on stuff that's making you happy, too. If not, hopefully, you're working toward getting to that point.

Today we have a great guest on the show with us. That is Nathan Barry who you may have heard before on the show. He's been on a couple of times before. Once to talk about his e-book business which he since closed down because he started a new software business called ConvertKit. We started talking together when I switched from Infusionsoft which was a ... Actually, I switched from AWeber which is an email service provider to Infusionsoft to then ConvertKit, his product, and why I use that for email service now. For those of you who are on my email list you'll be getting emails from ConvertKit or have gotten them already. I love it because it just does so many things so easy.

I wanted to talk to Nathan again today to talk about how he was able to bootstrap that business which is now making over \$5 million a year. I was actually right there in the beginning when he started this thing and have seen him grow over time. Now he's on this exponential curve upward and I wanted to talk about how he's been able to do that. Also, I wanted to talk about some of the growing pains because it's definitely scary when I think of myself if I were in his position creating a business like he's done with a much larger team now and all the things that are involved with that. It's not

necessarily something I would want to do. I think it's something that we need to talk about, so that you can see if this is a thing that you want or not.

For many of you this is exactly what you want and for some of you you might see that, well, the business idea you have which could potentially lead down this road isn't what you want. It's important to understand these things now before you put in that time, money, and effort into something. You want to be putting that time, money, and effort into something that you know that you want. That's why we're talking with people who are successful on this show, so you can see which ones resonate with you or not. Like I said today we're talking with Nathan Barry, CEO and Founder of ConvertKit, a company that I'm also an advisor for.

I'm an advisor for a few companies and what that means is I have a little bit of a role in terms of helping that company based on my expertise, based on my position in the marketplace and based on what I see and hear. I can help them out by sharing what I hear from the frontlines from you guys, you listening, what you like, what you dislike and I can pass that on and help improve the company in that way. We talk a little bit more about the specifics, we also talk about numbers, we also talk about what that deal is like, myself as an advisor for this company. This is all really interesting stuff. This is brand new to me and it's likely brand new to you as well.

Hey, we're going to dive right in, so here's Nathan Barry from ConvertKit.com. For those of you who are going to end up using it at some point you can use my affiliate link if you'd like which is [SmartPassiveIncome.com/ConvertKit](http://SmartPassiveIncome.com/ConvertKit) which at no extra cost to you puts a little bit of money back into SPI which is awesome. Again that's [SmartPassiveIncome.com/ConvertKit](http://SmartPassiveIncome.com/ConvertKit) and here's Nathan. What's up everybody, I'm so happy to welcome back to the show, Nathan Barry, CEO and Founder of ConvertKit.com. Welcome back, Nathan, how are you?

Nathan: Doing well, thanks for having me back.

Pat: Thank you for taking the time. I know you just got back from a trip to Thailand. You were there to speak and you've been speaking quite a bit and have become known in this space for somebody who's built this amazing company. I'm not just saying that because I'm an advisor for the company and I'm just very thankful to be a part of it, but because you built the company in a way that's a little different than a lot of the other SaaS companies and software solution companies out there where people are getting venture capital and angel investing and getting a whole bunch of people to put money in. You were able to do it purely bootstrapped, is that correct?

Nathan: Yeah, so we haven't taken any outside money. It's been entirely customer funded other than I put in some money over time that ended up being about \$65,000 over the life of the entire company.

Pat: Okay.

Nathan: Other than that I . . . from customers.

Pat: That's awesome and that is a pretty unique story I think out there especially with something this big and this successful. Currently can you share some of the numbers? We're recording this right now in October of 2016. Most of you who are listening to this right now are listening to it at the end of 2016 or perhaps in the future, so it's probably grown even more since recording this.

What's really cool is ConvertKit also shares their numbers transparently on a site called Baremetrics and a few other companies do this. I know Buffer app does it and ConvertKit, too, where you can see their monthly recurring revenue, their annual run rate which is how much money they're set to make in revenue every year based on the number of users they have. You can even see in real time how many customers are subscribing and what they're paying and all that stuff. Do you have any numbers to share right now? Obviously, I know you don't mind sharing because it's out there in the world, but where are you guys at right now?

Nathan: Yeah, so we're at \$440,000 a month in monthly recurring revenue.

That's from just over 9,000 customers and we're growing by about 8% every month.

Pat: That's insane and that equates to about a little over \$5.25 million every single year. Now a big question, how much of that is profit at this point? I know you have a big team and you pay them and you have to pay for resources to make your company work. Of the 440K per month how much of it is left over?

Nathan: Sure.

Pat: I know you use that to grow the company even more.

Nathan: Yeah, so that's actually been a big journey for us because back in January of 2016 we were losing money. We actually lost money that month and so we made a huge push to get profitable. We went from losing money to 3 percent profit margins to 10 and then by June of this year we were at 52% profit margins. That was really skewing too heavily towards profit and so then we readjusted. Since then we've been operating at about 30% profit margins. That's the right balance of saving up enough money and having this war chest. Really you need a lot of cash in the bank when you get to the point where you're spending a \$.25 million a month on staff and servers and all of that, so 30% is about where we sit right now.

Pat: It's really interesting. That right there what you just said that you were still in the red in January of 2016 even though the company's been up for a while. I think a lot of people when they build their software businesses they expect to have some profit right away. Can you speak to realistically, especially if you are not getting capital from outside sources, what the expected timeline is for the revenue growth and when it starts to become profitable.

Nathan: Yeah, I think there's no standard. Building a subscription business takes a lot longer than I thought it would. I came from the e-book world and so that you can build up an audience of 1,000 people and launch a course to them and you've got \$10,000 in revenue relatively quickly. That was not my experience with SaaS at all,

software as a service. It really took a long time to get going. I think other people could have done it faster in the early days, but really in the last 2 years we've probably done it faster than most other companies out there. On the profit side I would expect to run at breakeven where you're spending every dollar that comes in. I would plan to do that for a long time. We did that up and until we were about \$120,000 a month in revenue.

One of our employees, I think the 4th employee that we brought in he came in at part-time and I think he started 15 hours a week. The next week I was like hey, Matt, can you switch to 20 hours a week? Then 2 weeks later I was like can you go to 30. He was like, okay, wow, I must be doing a good job. He was doing a great job, but also we were buying more hours from him as MMR increased. Basically, we just spent the money exactly as we had it. I would say expect to do that for a long time.

Pat: Now you were taking money for yourself at this time, right? You were paying yourself a salary or were you not?

Nathan: I started paying myself a salary January of this year, so I was three years in before I started paying myself a salary. Then later this summer I finally repaid the money that I loaned the company which was a total of about \$65,000.

Pat: Back to yourself?

Nathan: Yeah, and for tax reasons that ended up being a loan and then a repayment of a loan.

Pat: I see, so for three years you didn't have an income coming in. Is that the way you're trying to explain it?

Nathan: Yeah, I made my money from my blog and from my e-books. I had this idea of oh, I'm going to focus on ConvertKit and it's going to take off and while it does this my books and courses are going to continue to sell and so I don't need to worry about money, but I focused entirely on ConvertKit and 100% neglected the other

business. It went from about averaging \$15,000 a month in revenue, the other business that is, it dropped down pretty quickly to about \$2,000 a month.

I'm really bad at balancing different businesses. Some people can juggle a lot of things and do that successfully. I can't. I tried it for a long time. I would each month watch my books and courses coast down closer and closer to zero and just focused on ConvertKit, so I actually ended up cashing out all of my investments. I had about \$50,000 in . . . so just . . . and stuff. I ended up selling all of that off just to live off of because I didn't want to take focus away from ConvertKit as it was going well. Yeah, that's how I lived for 3 years without taking a salary.

Pat:

Now was that ... Okay, so I'm thinking about what it's like for somebody to listen to this. You had built a successful company from the ground up, no bootstrapping, but you did have some money set aside and you had this other business going for you. If somebody were to say, Nathan, I would love to build a business and bootstrap it just like you did, I think it's fantastic, you don't have to share any of your company with other people and give up a little bit of control that way, but I don't have that side business like you had. You had and you've been on the show before talking about this, a very successful e-book business. You shared with us some amazing price tier structures that allowed you to really maximize the impact that you were having with those books.

As a reminder Nathan was creating books, helping designers and app creators with their UI and he has an expertise in user interface which is why I feel ConvertKit's actually one of the best out there because it just looks and functions great. To somebody who's asking themselves, man, I would love to bootstrap a business like Nathan, but I don't have that side business. I'm working nine to five, I don't have that money in the money, is bootstrapping a business like you did even possible or is that money necessary, so that you can take the months or years even without taking any income from that business that you're building?

Nathan: Yeah, so it depends a lot on the type of business. If you're trying to build something of the scale of ConvertKit or really any software and a service business it's going to take a lot and it takes a skill set, so I would not start that as your first business. Jason Fried from Basecamp talks about making money being a skill and something that you should practice over time just like you would playing drums or cooking or any other skill.

I think of it as a SaaS company or a software of any kind is a type of business and a level of skill that you should attempt after you've spent a few years practicing. I think doing services for other people that's a great baseline of where to start and then you can ramp up into simple products. Those might be books or courses, iPhone applications, some of these more standalone smaller things before making the step into full-fledged software. As you establish those skills you'll also establish the ability to earn income before you attempt something that's really, really difficult and takes a long time which is software as a service.

Pat: Another thing that comes to mind is you had an audience already and had many people who were building their own email list and building their own blogs and brands. Just as you mentioned the last time you were on the show you built ConvertKit for yourself and people like you. When you started it you already had some kind of an audience who could already use it which differs from a lot of people who have these ideas for these softwares or maybe they're coming up with solutions for problems that they have, but they don't have an audience yet. Here's a big question, is bootstrapping for everybody and would you recommend people even go out and get venture capital if they don't have those resources?

Nathan: Yeah, so I see them as two different things. One, I don't think that bootstrapping is for everyone. There's a lot of types of businesses that benefit really well from getting venture capital. I think a lot of people think of venture capital as a necessary step and I'd say in most businesses it's not. Certainly for our business we've been able to do it without funding. It would accelerate the timeline if you're able to raise funding. You'll basically either win or lose faster.



The stakes are higher at that point. What might have been a great \$20,000 a month business which you'd never complain about, if that was bootstrap that's a success. If you raise half a million dollars or a couple a million of venture capital and that's the pinnacle of what you can achieve even \$100,000 a month that would be a failure. They would be pushing you to higher limits.

I would watch out for the idea of venture capital being a first step that you have to achieve because it's like asking permission from someone else to start your business because you're saying I can get customers once I convince these angel investors to give me a quarter million dollars. I don't like that. The first place to go is to customers and so I'd start there. You can never go wrong trying to sell customers and get preorders and that kind of thing from day one because you know if the business works. What would be awful is to put in a bunch of VC money or a bunch of your own money and then find out six months or a year or more down the road that no one actually wants to buy what you're selling. It's too easy to do that if you're funding it some other way than with customers.

Pat: Right, right. Then when it comes to the money required to start this business, you had this other business that was helping you, you had some money in the bank already, how much money would be needed? How does one even know what the costs would be if somebody's doing software, for example? Would they actually go and reach out to a developer or potentially partner with somebody and just see what that cost would be and work backwards from there before they get to a point where they're like, okay, I've saved up enough money, I'm going to take the plunge and actually start building this thing. Where does that ... You had enough to start, how does somebody know they have enough to start?

Nathan: Yeah, so if you have customers you can always work on it ... Or you get preorders, you can always work on it with that money. Where I would start is talk to contractors, get estimates, and then probably triple or quadruple those as far as to get a realistic amount of what you're going to spend.

Pat: Right, right.

Nathan: Then another big factor is going to be your own skill set. If you know nothing about building software then expect that you're going to lead these contractors down some other route that is going to waste a bunch of time and money or you're not going to communicate with them efficiently. I would spend some time learning the basics of software design, learning the basics of user experience, how to wireframe out software and explain this is what I'm trying to accomplish more than just a list of features.

The more you can do that and the more you understand about the process the more time you'll save or the more money you'll save. I saved a lot of money because I knew design and frontend code. In the early days I spent about \$10,000 to have a Ruby on Rails Developer build that first prototype and I did all of the design and HTML and CSS. I probably saved probably half the money for that first prototype. I wouldn't expect to get any initial prototype done for less than \$20,000 unless you're able to do a bunch of that work yourself.

Pat: Now people are hearing that, \$20,000, that's a lot of money, Nathan. Is there anything one can do before they get to that point? You had mentioned collecting preorders to fund some of that. How does one ... Let's start from the beginning. If I have a software idea or somebody in the audience has an idea for a solution that they need help with that they think other people need help with what would the steps be to begin to collect those preorders? I want to go hard on you a little bit. What if I don't even have any contacts of people who are influencers or I don't have an audience of any kind?

Nathan: Yeah, so if you're really starting from scratch I would say pretty strongly you shouldn't start this business because if there's different levels of difficulty in a business I would put software at ... This is like a level five difficulty. I wouldn't try to skip to the end of the videogame and play the hardest levels before you've worked your way up. Learn those core business skills of selling, of building an audience, of building a network along the way and learn them on

simpler products where there's less money at stake. If you fail it's not as big of a deal and it just takes less time. Now that said if you want to dive straight into the more difficult side of business I don't blame you. Entrepreneurs are crazy people and ...

Pat: That we are.

Nathan: We wouldn't get anything done otherwise. What I would do is I would get really specific about who you're targeting, what problem you're solving. Don't just solve a problem ... For the case of ConvertKit we're like yeah, we're solving email for people who need email solutions. That doesn't give you anyone to target because it's like anyone who uses email marketing is in our target market. That sucks. Later what we did is we focused on email marketing for professional bloggers. Now as you have that more narrow focus then you can start to get on the phone with professional bloggers or teachers or designers or whoever your target market is. Start to ask them do you have this problem, what frustrations do you have.

We start a lot of conversations just by saying hey, I see you're using MailChimp, is there anything frustrating you about that? Of course, everyone has frustrations. If you ask people using ConvertKit do you have frustrations? They'd be like yeah, here are my frustrations. No product is perfect. That's a great starting point to see what problems can we solve. Everyone online I feel wants to sell through content. They want to do content marketing, they want to write a blog post or email their list and just have all these sales come in.

I'm all for that and I've done that a lot and we do it now with ConvertKit, but in the early days you're getting rejected all the time. If you're only selling through content or selling through channels that scale you don't know why you're getting rejected because everyone's hitting ... They're just clicking the back button or they're hitting archive on your email. They're not replying and saying, Nathan, I would buy this except and send you a detailed explanation. Whereas if we sit down in person or we get on the phone and I'm saying hey, Pat, you should buy this thing. You can't hang up the phone or you can't get up and awkwardly shuffle out of

the room.

You have to actually say what about this or I don't think I'm going to buy it because I'm using this other tool. You're socially obligated to give real reasons and then that enables a dialogue. If you end up not buying I at least know exactly why you didn't buy. If I can overcome those objections then we might get to a sale. With content you're getting rejected and you have no idea why. I would encourage people hunt down your target market and get really, really specific. Then get them on the phone and learn about their frustrations, tell them about your solution, and then try to get them to give you money and do direct sales. Everyone says they don't scale, but if you can't get customers who cares if it scales. You've got to find channels that work.

Pat:

I know that you also met a lot of people in person to talk about these things including myself. You took me out to coffee one day and we started talking about how I was on AWeber and then I switched to Infusionsoft. You were just asking questions, you weren't being aggressive, you were just curious and because we have a friendship and we just had coffee, we were just chilling and having a good time. I think you got a lot out of that conversation and that obviously led to months later me switching to ConvertKit. Then me coming onboard as an advisor and now promoting and sharing it as a recommended resource for everybody out there which is awesome.

I know there's a lot of ConvertKit users out there. Hopefully, you're enjoying this conversation with Nathan Barry, CEO and Founder of ConvertKit. Whether you use ConvertKit or not I think there's some big lessons here especially when it comes to a lot of these big grand software-type business ideas that we have. It may not be for everybody is the big thing that I'm hearing. I have a little bit of a foot in the software space with the Smart Podcast Player and even as small and as niched down as that product is it's a lot of work.

One of the other things that comes to mind with this kind of stuff is the customer service that is needed in order to keep it alive and

keep it thriving. I'd love for you to talk a little bit about that, Nathan, in terms of what was customer service like for you? Was it always just you, when did you start building a team, and what does that team look like now for you?

Nathan: Yeah, so the first two years it was just me. Right about the two-year mark we started bringing on a bit more of a team, so a full-time developer and a full-time customer service and everything else rule. In the early days it's all catchall.

Pat: Really quick, when you were just starting out and you said it's just you you didn't do the development for ...

Nathan: I have contract developers.

Pat: You had contracted, okay. You worked with them on the side specifically for the project itself, but you were your only employee at the time?

Nathan: Yeah, and so I didn't get paid. I don't know how much an employee I can count it as, but that scaled slowly. I guess really quickly on the hiring thing. One friend, Danny Iny who runs a company called Mirasee, he used to do Firepole Marketing.

Pat: He's great.

Nathan: He and I were having breakfast one time and he said if you pay for half of someone's time, so if you hire them part-time you're really getting a quarter of their attention. Ever since hearing that I've made a push to try to hire full-time people who are focused entirely on ConvertKit and I think that's paid off really well. I try to use full-time employees and take really great care of them rather than doing any offshore development or outsourcing and that's just my personal style. That results in a bigger team inhouse, so right now we have 9,000 customers and 8 full-time people on our customer success team.

Pat: E-People specifically for customer service.

Nathan: Yeah, exactly.

Pat: That sounds like a lot, but what's their volume like?

Nathan: Yeah, so we do about 250 replies per day.

Pat: Wow.

Nathan: We handle all of that inside of Help Scout. We tried a bunch of different customer support tools and that's our favorite. It has the best metrics and reporting. The other thing is we started to roll out phone support a little while ago. We don't have a phone number that you can call, but we have links in all of our emails and an app where you can click to schedule a call. We have all these 20-minute or 15-minute phone call slots and we do about 100 phone calls a week.

Then the other thing that we're trying out is calling every customer who signs up and seeing anything we can do to help, how can we answer questions. These are all things that we're trying to do just to make customers more successful. Really the more successful you are the more likely you are to stick with the product. Then I guess the other big part of it that two of the people on the team spend a lot of time on is the customer migrations. If you're on AWeber or MailChimp or Infusionsoft and above a certain threshold, basically above ... I think it's 10,000 subscribers right now then we'll do the migration for you for free.

That's been a huge tool because people will say oh, man, I'd love to switch, but it's too much work. We were able to just remove that objection and say look, we'll do it for you for free and then it's pretty hard to say no to that. We now have 2 full-time people, that's all they're doing and they're switching 15 to 20 customers a week doing all of that work for them, but it pays off. We get a lot of bigger accounts, more influential people that way.

Pat: That's awesome, I love that and how you're directly applying that to someone's specific objections when it comes to why they would not subscribe. I think that's really important. This is something that

I try to do with everything I do, every blog post I write, every book that I write, every podcast episode I come out with. I try to think of, okay, what are the haters going to say? Haters is maybe a strong word, but just what are the objections going to be and make sure to address those. I picked that up in a Malcolm Gladwell interview or even in a book where he specifically writes chapters based on people's initial readings of the manuscript and he adds those extra chapters in if people have something to say just to counter those and directly address them.

It's like Eminem in 8 Mile when he's rapping and he at the end raps about himself and makes fun of himself before the other person can actually use that as ammunition because he already talked about it. Anyway, that's a stupid analogy. Yeah, that's awesome. You had mentioned again January 2016 is when things started to shift in terms of being profitable, really starting that hockey stick growth. I'd love to have you speak on what attributed to that. What are some of the things that you put into place after years of being up, years of seeing relatively small growth and then boom, that big growth finally started to happen. What did you guys do purposefully to make that happen?

Nathan:

Yeah, so we basically focused full-time in the business October 2014 and so at the time we were doing \$1,000 a month in revenue. That's when I started direct sales, we started these . . . migrations and doing anything we could to get customers. Fast forward to March of 2015, so 6 months later and we hit \$5,000 a month in revenue. End of July which that's when you signed up was July 2015 we were at \$15,000 a month in revenue and so that's really ... That June, July time for me is when things really started to take off because you came on and then another really big site in a different industry called WellnessMama.com, they came on at the same time. Getting two influencers in two entirely different spaces made a huge difference.

Then so we kept having this linear growth and then we started doing webinars and these other bigger promotions. Let's see, October of 2015 you . . . that email marketing one and I think that promotion

alone with you added \$10,000 to our monthly recruitment revenue, so that was like 40 or 50% growth in a single month. Then we started doing webinars and getting just a lot more word of mouth. We hit that initial scale of now there's ... Everyone was talking about us, every customer was, but when there's 100 customers that's not that much . . . Then once it's 1,000 customers and they're all telling their friends that makes a big difference.

Really those initial posts from you and also from the team at Wellness Mama, in two separate industries just made a huge impact. Because in the early days it's really hard because people are like yeah, but who uses you? You're trying to say we have this customer or we're used by ... You're listing all these people that they may have never heard of, but then we were able to say oh, this big account that I know you heard of, either you or Wellness Mama, that made a huge difference in the credibility. Then things started to ramp up from there, so it was really about that timeframe because October we were at \$25,000 a month in revenue and then by the end of December we hit just shy of \$100,000 a month. That was like 4X in 2.5 months or something like that.

Pat: Yeah, that's amazing.

Nathan: It was crazy.

Pat: I know because I'm one of them, the influencers who came onboard and really pushed it hard, but I did that because it's a great product and I knew everybody who uses it would enjoy it and they have been. I think it's really important that when you're building any kind of business it's obvious that the relationships that you build are really going to help push your business forward. You can't possibly do this alone. You can't have word of mouth marketing for you if you're the mouth that's only talking.

You need to really get connected well with other people and you worked a long time to let our relationship turn into something that eventually became beneficial for ConvertKit. There was even no ask upfront, but it's just because you knew you believed in the product and you knew it would help me and that you were there as



a resource once I finally needed it. I think that's really important for any business no matter what you're selling. You need to connect with the right people, you need to make it easy for people to understand that this is something that they need. Not only that, to make it easy for them to get access to you like you said. Then the webinars and all those kinds of things work, too, but more than anything like you mentioned it's the connections that you make.

A couple of more questions, first related to what we were just talking about. I came onboard as an advisor and I'd love to have you share if you're willing to or allowed to what the terms are like because I think there's a lot of software companies out there and other companies in different spaces that can benefit from having advisors come onboard in a similar way that I did. I'm not just saying that because I had this great influence. I'm saying that because like we were talking about, you need to get other people onboard who can offer their skills and offer their influence. What does that look like for ConvertKit in return? What were you able to share with me? What were the benefits on both sides?

Nathan:

In a typical advisor setup ... Basically what that is is you're looking for someone who can help move the company forward and have maybe biweekly or monthly calls, make connections. If you're trying to raise funding this would be a person who could lend their name and their contacts in the project, so really make that funding run altogether. The way you typically compensate an advisor is with equity in the company. That can range anywhere from ... The most common would be a quarter of a percent all the way up to ... I've heard as high as one full percent of the company.

Basically, what you choose there depends a lot on how far along the company is. If you're at the idea stage it would be more and if you already have traction and good progress then it would be less. We have 2 advisors, you and Ryan Delk. Pat, when you came on I think we were ... Officially as an advisor I think we were doing about \$25,000 a month in revenue, maybe \$20,000 a month. It was just before that big push. For everyone who wants to know how much of ConvertKit Pat owns the exact terms of that are .75% of the company, so three quarters of a percent.

I'm trying to think, basically, that vests over four years which is a pretty standard term. Normally there'd be like a one-year cliff on that. What we ultimately decided is like you were basically saying hey, I'd love to be an advisor or I'd love for something to work, but if not I don't care, this is my promotion plan. Oh, and by the way, it starts in two weeks. I was like I don't think a cliff makes sense here because we're going to get some pretty amazing value from this not a year from now, but starting next Tuesday basically. We didn't do a cliff, basically, the equity started vesting right away.

Pat: Yeah, so what that means, everybody, is it doesn't necessarily mean or doesn't mean that I get a check from ConvertKit for that ...

Nathan: Actually, you will get a check this year.

Pat: Oh, I will?

Nathan: . . . do that.

Pat: Yeah, I didn't know that.

Nathan: . . . get a check.

Pat: Oh, sweet.

Nathan: Everyone gets to find this out at the same time. Basically, the way we have ConvertKit structured is a little different from a standard startup. The way we have it structured is that all of the profits ... Because we're not in it to try to build and flip a company, we're not trying to get an exit as quickly as possible, so we're trying to build a profitable company that pays out dividend checks to its owners. The way we're set up as an LLC the profits flow through to the owners and so there will be a check that comes out at the end of the year for your percentage of the profits.

Pat: Sweet, I didn't know that. I got to read up on those terms a little bit better. No, that's awesome. I remember my attorney mentioning something about that, but it was something that wasn't expected. There are many more benefits to being an advisor than just the

percentage of the company. There is some part ownership there. I do feel I have a bit of the company. Even though it's a fraction of a percent it does feel I have some ownership there which allows me to in my head and quite honestly share it with the world in a way that's more honest and more authentic I believe. I'm more behind it, if you will, so that's another reason why you might want to have advisors come onboard and actually share a piece of the company with them. Even though it's a small piece it works out really well for everybody I think.

Beyond that because I have direct access to Nathan and because I'm actually using this product as well I'm able to reach out to him if anything happens or if I hear anything on the frontlines. I think that's one of my superpowers in the space is I get to hear directly from people who are using these products and what people are frustrated with. If it's something they're frustrated with that particular software in particular I can go directly to Nathan and get things moving quite quicker which is great.

That's also a benefit for me because I use it, too, plus I'm able to share my own ideas for features and things like that. I can run those ideas off my audience and then if I hear that there's one particular thing that's very needed I can go to Nathan or one of the developers or something and we can get something created which is awesome. They move a little bit faster on that because my say comes with a little bit more weight I would say if that makes sense, Nathan.

This is similar to how I have it set up with other companies that I'm an advisor for like Leadpages and SamCart. Really I'm not in it for the money, I'm in it for the connections and the ability to have my name next to the company. It means a lot for my business and my authenticity and so for me as an advisor that also comes with it, too. The other thing that I want to mention is that because I have a fraction of a percent of the company that means that if it were to actually exit at one point I would be included in that as well. With the 440,000 that's being made every single month I'm not making \$3,000 every month because of that, but if it were to exit at ... multipliers of that I would have a significant income coming from that.

Nathan: A good chunk.

Pat: A good chunk, yeah.

Nathan: Yeah, so my job as CEO really is to build a company that's not worth \$5 million or \$10 million, but my job is to build a company that's worth \$100 million or more. Then when you start to look at it in those terms then the listeners would go oh, okay, now I see how this math checks out.

Pat: Yeah, yeah.

Nathan: The other thing to mention and this is something that I think is ... You have this ... I know you have the same setup with Leadpages and I assume with SamCart because I think this is a really great way to go is the combination of equity and affiliate commissions. The reason that that's so awesome is that you get rewarded in the short-term in that people can look at your income reports, convert . . . somewhere between 10 and \$12,000 a month. Like in the early days you're taking a big chance and you're lending your name and your reputation and putting it behind this product that yes, you've used a lot, but a lot can go wrong in startups.

For that long-term . . . you're getting paid in equity and for the short-term you're getting paid as an affiliate. If it was one or the other I don't think it would ... I don't know if the . . . would be aligned as well. I think because the combination of the affiliate revenue and the advisor shares it just makes it a really good fit for everyone. It gives you more of an incentive to take a chance on some of these up and coming companies as well as it gives the company a way to compensate you. I feel everyone's incentives are perfectly aligned in that case.

Pat: Yeah, it's cool. It's been a lot fun actually and I'm quite ... I just feel very blessed to be a part of this growing company and I just want to say congrats, Nathan, I know it's come a long way. I hope everybody listening to this knows that it's not just something you could set up and then tomorrow you're going to have this amazing company with a ton of subscribers. Even if you did how would you

be able to handle that? There's a lot of things that come into play with team building and getting everything into place, customer service especially and it's a long-term game. I know Nathan's running a marathon here and we're just at the start which is really cool, so I'm excited to see where it goes.

The last thing I want to talk about, Nathan, if you have a moment are your growing pains. Right now and I know this is something that every company goes through, but I know every company's different as well. What are some of the growing pains that you are experiencing right now with your business? I think it'd be pretty cool to hear that even though the numbers are great that there are still things that could be improved on and figured out.

Nathan:

One thing as you were talking that I remembered is I think last fall, so probably about a year ago we were talking ... I asked this question, when do you think this is going to be a real business and you said ... I think the number was \$50,000 a month. Once it hit \$50,000 a month then it feels like it's going to be a real business. I think it's fun to just remember those conversations and remember when that was the big goal.

Growing pains, there are so many. I expected server issues and that kind of thing as a result of having a fast-growing company. There are plenty of months in the company that we've grown 20, 30% each month and that's going to cause issues. We've gone from in the period of a year sending a million emails a month to sending 130 million emails a month. That has a lot of server issues and so we've put a lot of work into that. We had some downtime over the summer. What I didn't expect was all the malicious behavior. Once we became a successful company and we were getting this great deliverability, we actually had a lot of people specifically trying to attack ConvertKit and bypass the anti-spam measures. Actually, we had denial service attacks against ConvertKit. I just didn't expect that level of malicious behavior.

As an example earlier this summer I was browsing or I heard about this from a customer and then they told me hey, go on Upwork and search ConvertKit. I'm like, okay. I go and look and there's all

these postings and they're things like hey, ConvertKit has really good deliverability, can you reverse engineer it. I'm like, okay, cool, someone wants to learn how we do what we do, whatever. The next post a week later, ConvertKit has really good deliverability, can you hack their anti-spam measures, so they stop automatically banning our account because this is obviously a spammer. Then a little while later is ConvertKit's an email marketing service for professional bloggers. If you're a blogger sign up and then get your account approved and then we'll buy your account from you for \$100.

Pat: Weird.

Nathan: All this kind of stuff keeps going on and on and I'm just like oh, man. These people at the same time are like trying to hack the system and screw with everything. I don't know, I just didn't know to expect that going in and so I spent a good, I don't know, two or three months and a couple hundred thousand dollars fighting off all of that crap. I don't know, it's just the cost of doing business, but that made my summer less enjoyable.

Pat: Yeah, that sucks and I've had that happen to me, too. I've had a DDoS attack back in March of 2013. It brought my site, SPI, and many other sites that I had on the same server which was, first of all, my own mistake to have that be the case, but I was down for a week and a half, lost about 15 to 20K in projected revenues at that point. It was just bad. There are bad people out there doing bad things, so I just know that that stuff is going to potentially happen and, thankfully, I had my email list and my podcast and my YouTube channel to still be able to communicate with my audience and keep them up to date. Anyway, are there any things going on in terms of growth. What are you guys doing for growth right now to continue to get the word out there or is it at a point now where it's taking off on its own?

Nathan: To some extent it's taking off on its own, but to maintain the levels of growth that we want it takes a lot of work. The main channels for us and we're trying to not pursue new things all the time. We're trying to really analyze what's working and double down on that. A big thing for the last two years for me is just focus. Our channels

right now are we do a lot of direct sales still. We've switched that, so it's not as much outbound where we're identifying prospects and . . . on them, so we still do some of that. It's more inbound work now in our marketing site. It's trying to get people to request a demo and have those conversations.

There's that and then there's affiliates and we have about 2,000 affiliates, but with affiliates there's something ... I first learned this term from Chris Guillebeau years ago. He called it the 98/2 rule of affiliates and that's like 80/20, but instead of that it's that only 2% of your affiliates will ever sell anything ever. Really it's just a power law distribution on the effectiveness of affiliates. It's not going to be equal across all of them. We've put a lot of work into helping our affiliates to write reviews, host webinars, and that kind of thing because people don't just sign up for the affiliate program and then magically start making sales. It takes a lot of ... You actually have to get that content out there.

Those are the big channels and I guess I mentioned webinars. We do about 25 partner webinars every month. That would be with everyone ranging from Darren Rowse from ProBlogger to Pat, you still hold the record for our largest ever webinars. I just did some with Jon Morrow, some with John Lee Dumas, but basically we get in front of a different audience. We push every single day for a webinar. Those can bring in anywhere from ... A small webinar might bring in 10 customers. We're thrilled with that because we just got to do a bulk ... like a mass sales call. Instead of one-on-one it was 1 to 10 or 1 to 50. Then a big webinar from us would bring in anywhere from 100 to maybe 400 customers.

Pat: That's awesome, amazing.

Nathan: We did them all the time.

Pat: I love it. I know that's how a lot of other companies have grown, Leadpages especially. They went on a big, huge webinar kick and they're still doing that, so that's awesome. Nathan, there's been a lot of great information, very inspiring. It makes me think of what's possible for a Smart Podcast Player or in the realm of software now

that I have dabbled in it.

Also, I think it's a great eye-opener for people on what really happens with this kind of business. That a lot of people see the success and they see your numbers on Baremetrics and they're like yeah, I can do that, too. Maybe you can and I hope you do, but it's not going to be easy, that's for sure. I love how you always go back to let's just solve people's problems first and talk to the customer and that's really where it all starts.

If you're thinking about getting into any business ... As you might know when you read Will It Fly or if you're taking my Smart from Scratch course as one of the founding students that course will be launched later next year or early next year. It's all about talking to people and getting information from them. That way you can build the best thing that you can for them to help them in the easiest way possible. Nathan, thank you so much for coming on, your time today especially after your recent trip to Thailand. I just want to thank you again for building an awesome company and sharing your wisdom as you always do.

Nathan: Yeah, thanks for having me and thanks for being a huge part of all things ConvertKit.

Pat: Hey, man, my pleasure. All right, I hope you enjoyed that episode with Nathan Barry, again CEO and Founder of ConvertKit, a company that I'm an advisor for and that I dearly love. I cannot wait to see where they go next. If you want to check him out use my affiliate link, [SmartPassiveIncome.com/ConvertKit](http://SmartPassiveIncome.com/ConvertKit). That'll get you hooked up there no matter what level you're at even if you're just starting out. What I love about them is that they're super easy to use. They're not overwhelming and that's why I switched over, so you can check them out. Again one more time, [SmartPassiveIncome.com/ConvertKit](http://SmartPassiveIncome.com/ConvertKit).

Nathan, thank you again for coming on and sharing your wisdom. Best of luck. I know we'll get through all those growing pains and we'll be doing that together. I can't wait to see what the numbers are like. If you want to check out the show notes and the resources in the links including a link to their Baremetrics account which



shows you exactly how much money they're making and what their monthly revenue rate is and monthly recurring revenue numbers are and all those things, I love that because it's so transparent, you can check that out and other links at [SmartPassiveIncome.com/Session 244](http://SmartPassiveIncome.com/Session244).

Then finally I'd like to thank today's sponsor which is [99designs.com](http://99designs.com), an awesome site you can use to get any sort of web design work done that you need. For example, if you need a logo done you can go to [99designs.com](http://99designs.com). If you need a webpage done or a landing page or an entire suite of stationary for whatever brand you have, for a t-shirt, for a food truck wrap. Anything you want designed you can have it done. It's really cool because you're going to get hundreds of designs from all around the world. There are literally hundreds of thousands of designers from all around the world waiting to see if they want to work on your project.

You get to pick from the best submissions which is really cool, sort of like a contest and you get to pick your favorite one. You could have your friends and family vote on their favorite or even your audience vote. It's really cool. I've just done a few recently as well and I think for those who are just starting out who are bootstrapping their businesses and can't afford a designer to hire on their team this is the next best solution. You can check them out at [99designs.com/SPI](http://99designs.com/SPI). Again that's [99designs.com/SPI](http://99designs.com/SPI) and you'll get a little bit of a kickback or a \$99 credit that you can put toward your next design project, so check them out.

Thanks so much. I appreciate you and I look forward to serving you in the next episode of the Smart Passive Income Podcast where we're going to be interviewing another highly successful entrepreneur, one that you may have not have heard of before, but he's doing great things and he's got some really interesting stories to share. I can't wait to share that with you. Until then keep moving the needle, keep working on one thing at a time. You've got this and let's finish off the year strong. Thanks so much, I appreciate you. See you in the next one.

Announcer: Thanks for listening to the Smart Passive Income Podcast at [www.SmartPassiveIncome.com](http://www.SmartPassiveIncome.com).



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