Episode 776: Unleash Your Inner Company: Use Passion and Perseverance to Build Your Ideal Business

Guest: John Chisholm

WOODS: Let's talk about *Unleash Your Inner Company*. Why don't we start first with skepticism that people might have of this very idea. I think a lot of people think that starting companies something that other people do, or developing services or products based on a market need is something other people do. What I do is I apply for jobs, and I go get those jobs, but other people start companies. What company could I start? How do you break down that kind of skepticism?

CHISHOLM: Well, I absolutely disagree with the notion that starting a business is for some people and not others. Anyone who deeply aspires to can start, grow, and make a success of their own business if it's the right business for them and if they deeply want to. In the first chapter of the book, I lay out the year of my life where I learned the most about entrepreneurship. It was the dot com bust of 2000 and 2001, when thousands, tens of thousands of companies were going out of business left and right after the huge Internet buildup of the 1990s. I had started a company three years before in 1997, and in the first quarter of 2001 I would often wake up in sweat-soaked sheets sticking to my skin. Our second round of financing, our series B round refused to close despite a flurry of meetings as we ran out of cash. Those nights I would get up, shower off the sweat, and try to get back to sleep. When my management team and I finally realized that our series B round was not going to close, we huddled to figure out what to do.

First we cut our own salaries, and then a few weeks later, those of all of our employees by 10%. Agonizing and debating over every individual, we laid off 40% of our workforce, 40% of the company I'd spent the last three years of my life building. When I assembled our remaining employees to explain to them that this was the only way we could stay afloat and stay together, I felt my composure collapsing, and I broke down sobbing in front of our employees. They stood there stunned, sympathetic, and embarrassed that their CEO was crying in front of them.

And Tom, where this story is going is all the other challenges that we face, which I'm happy to continue with the story. It's full of detail, and the dot com bust is then of course followed by September 11th and how it took a full day just to discover that all of our employees were still alive. And it was one nightmare after another, but we made it through. And if you ask me why we made it through, it certainly wasn't because we were smarter than other management teams. We definitely didn't have more resources than other companies did. We only raised 3 million, which even back

in those days was not that much. One of our clients, [inaudible], raised 75 million and had an IPO and then famously declared bankruptcy 14 months after their IPO.

If I had to attribute our survival to just two figures, it was these: one, we cared more deeply about our business, all aspects of it, about the coolness of our products, about the satisfaction of our customers, and about each other, more than other companies did. And we stuck with it longer than other companies did. It was another seven years before the company was acquired in the first quarter of 2008. So what got us through was the very same passion and perseverance that you or anyone can muster to start a business and make it a success. Everyone talks about passion these days. A few people also talk about perseverance. No one is talking about how the two reinforce each other, how they form a positive feedback loop.

And in fact, that's the name of the first chapter of this book: "Passion and Perseverance: A Positive Feedback Loop." What do I mean by that? I mean things that reinforce each other. If I just stick with something long enough so that I start to get good at it and better at it, so I start to like it and then love it, that's an example of perseverance driving passion. Conversely, you know that when you're deeply engaged with an activity that the hours go by like minutes. It's easy to persevere in those circumstances. That's an example of passion driving perseverance. So you can see how the two reinforce each other. They form a positive feedback loop. And if you can think of any area of your life where you've experienced this positive feedback loop, that is very likely a really good area to consider starting your own business.

WOODS: John, let me play devil's advocate here, and I'll bet you haven't heard this kind of pushback, because everybody of course thinks, because it seems so obvious, that of course you follow your passion because, as you say, then you're more likely to persevere in something you're passionate about. You're going to love doing it, you're going to stick with it, and so on. But I wonder if just following your passion artificially limits the range of activities you might embark on in a business, because I might only be passionate about two or three things, and maybe it's hard to monetize that, whereas on the other hand, if I start a business where I see a market need but I'm not especially passionate about it, but it brings me in seven figures, I'll be you I'll get pretty passionate pretty quickly.

CHISHOLM: One of the things I say in the book is anyone can be passionate about something. Your comment is particularly relevant to a lot of young people come to me and say, What if I'm not passionate about anything? The good news is that anyone can become passionate about something. And it's a two-by-two matrix, with passion on one side and perseverance on the other. You need both. If you're passionate about something but don't have perseverance, then that's a passing fancy. If you have perseverance but without the passion, that's drudgery. If you have both, that's what I call flow or grit, because you know that's where those hours go by like minutes. And you are raising a good and important point, Tom, and that is that as we go deeper and deeper into an activity, the more engaging it becomes, and the more passionate we become about it. So yes, it's not as if our passions are a fixed set of things and they never change. They're constantly evolving, and the better we become about something, the more we know about it, the more engaging it becomes, and the more passionate we become about it.

WOODS: All right, fair enough. Now, I want to ask you — A lot of books that are like yours, or at least that are in the same genre as yours, I find are full of a lot of fluffy platitudes and not a whole lot of actionable information. Yeah, I know I should find something I'm passionate about, and I should find out where there's an unmet need in my market, and I should meet that need. I get that, but that's pretty vague. I mean, everybody knows that. But how do I do that, especially if I don't have a lot of money to start up with? You see what I mean? How do I get the ball rolling? This is why people think starting businesses is something other people do.

CHISHOLM: *Unleash Your Inner Company* is a very clear, step-by-step guide that actually has exercises and core lessons in every chapter. So let's take one of the things you mentioned: how do I find a customer need? Well, the book shows you how to find a potentially infinite number. Let's take any product or service you currently use in an area that you're passionate about. Let's say you're an avid runner like I am. Well, one of the products we use is running shoes. Okay, great. What are limitations of those running shoes? I can think of three limitations of mine. One, they start to smell if I wear them too many times. Two, if I want to change the color of the shoelaces to match my outfit, it's a hassle to thread and rethread the shoelaces each time. And three, the shoes don't tell me how far I've run and how fast I've run. And they should know that, shouldn't they? So there are three possible customer needs. I have to confirm that they're real and not currently being satisfied. I do that by talking to people, going to shoe stores, going online and seeing what's currently available.

Let's say I satisfy myself that those needs are real. I now have to find out are there products and services that already satisfy them. Well, of course there are. For shoes that smell, there are foot pads and sprays. They also have limitations. You have to do them every week or every day. So what's a limitation of the solutions to the limitation? Well, what if I could go an entire month or six months without having to change them? The shoes that don't tell me how far I've run or how fast I've run, of course there are solutions to those. There's Fitbit; there's Jawbone. But those I have to put on and take off. They're not built into the shoe. What if the solution was built into the shoe? And for the shoes where I want to change the shoelaces easily to match my outfit, I can't find any product that addresses that. Great. That's an opportunity for me to be creative and come up with a possible solution.

So you start with a single product or service; you find its limitations and then the limitations to those limitations. If you can't find a solution to those limitations, that's an opportunity to be creative. What starts as a single product or service in an area you're passionate about expands into an entire tree of possible customer needs, and you have the ability then to choose any of those customer needs to address.

One other thing I would say in regard to that: sometimes I hear, What if my passions aren't very businesslike? Let's say I'm passionate about long hot baths, kittens, and comic books? Well, on the surface those wouldn't sound very businesslike, but even in those areas there are potentially infinite number of unsatisfied customer needs that we can address. Long hot baths: people like to read, talk on the phone, listen to music when they're in the tub. How about a floating waterproof case for my iPad or my iPhone for when I'm in the tub? Kittens: kittens lose a lot of their cuddliness and affection when they grow up to be cats. What about a diet or genetic therapy that would keep a kitten a kitten its entire life? There would be a lot of demand for that,

wouldn't there? Comic books: the hugely popular tradeshow, Comic-Con in San Diego, each year attracts 150,000 people. People dress up as their favorite comic book characters. Hugely successful, hugely profitable.

So no matter what your passion is, there will be unsatisfied customer needs that you can satisfy. You just have to find one. I like to say that there are only two things to start a company and make it a success: a real unsatisfied customer need and an advantage for satisfying that need. And there are tons of real unsatisfied customer needs out there, and you have tons of advantages, whether or not you realize it. *Unleash Your Inner Company* helps you recognize all of the advantages that you have. But they're like puzzle pieces, and they have to fit together, and so your task is to find the two — lots of puzzle pieces on both sides, the needs and the advantages, and then find the two that fit together the best. That's where you're most likely to be successful.

People often ask, Why start with the customer need? Why not start with the advantages? Well, I like to say I started my first business, Decisive Technology, with a really cool technology — that was one of my advantages — for which there was no customer need. And it took me six to nine months to let go of that really cool technology and exchange it for something for which there really was a customer need. That was online surveys. This was back in the early '90s. That company, we gradually let go of the cool technology and came out with online surveys, and that product, Decisive Survey, became a hit. That company is part of Google today. So start with the real unsatisfied customer need, and that way you guarantee that your company really will satisfy a customer need.

WOODS: Now that raises another question about knowing whether there really is a customer need for your product or not, and traditionally you did the best you could with market research and assessing existing products and people's satisfaction with them or dissatisfaction, and then you'd roll the dice and you'd launch your product. In this day and age, there are other ways to assess the level of demand for that product, and I'd like to run one of them by you to get your thoughts about it.

John Lee Dumas runs a very, very effective and high quality program called Podcaster's Paradise. I'm a member of it myself, and it helps you get up and running as a podcaster, get established, grow your audience, and all that sort of stuff. But it's a high ticket product. It's not cheap, and a lot of effort went into creating it. And instead of doing all of that in the dark and just gambling if there'd be a demand for it, I'm pretty sure the way he initially did it was he said something like, I'm going to have this kind of product, and for the first 200 people to sign up for it before I even create it you can have lifetime access for $200 or $300. And the point of that was if he could get 200 or 300 people willing to put in that level of money, even that small level compared to how much it was eventually going to cost, that would be enough for him to know there is a demand for the product, and then he could go ahead and create it in the knowledge that it's not going to just fall on deaf ears. What do you think about that kind of thing, or am I too paranoid about worrying about the existence of the market for the product?

CHISHOLM: No, I really like that idea, Tom, and I think it's one example of a new class of ways that entrepreneurs can confirm that a market need is real before they invest a

great deal in launching a business. Kickstarter or Indiegogo are two websites where you can float ideas, try to raise money for them. They're especially effective if you have a consumer-oriented product that consumers might be interested in, and you can set a goal like raising $10,000 or $50,000 and offer each of the consumers who is willing to put in something to help fund your new business or your new product some special spec; for example, a special version of the product, the ability to access you and your expertise around it. And if the product reaches your goal, great, you get funded that way, and if it doesn't you've learned something, that at least the way you're presenting it and marketing it isn't appealing to people.

And there are lots of new options like that that the Internet enables. It's broadly in the same category as being able to have several different websites or after a homepage, letting people go down several different paths and seeing which one is most effective for getting people to buy your product or service. It's called A/B testing. You present them with either A or B and see which one is most effective in selling your product and then whichever one is more effective, that's the one that you make the regular mainstream product. And then you can have dozens of those experiments going on, either in parallel or one after another in serial, and this is part of a trend in software development called lean software development, where we're doing experiments continuously, and the whole idea is to see what works and doesn't work and learn as rapidly as possible. And that may be the ultimate competitive advantage in the future. The person who has the ability to learn as quickly as possible about what market needs are.

WOODS: Give me an example of what you mean by, "Different is better than better."

CHISHOLM: Well, Dell, HP, and Lenovo all make laptops. All of them are better than each other in some sense. One might have a screen which is 20% larger; another may have a processor which is 20% faster; another one may be lighter or more convenient by 5 to 20%. In contrast, Apple is different. Apple designed both the hardware and the software from the outset and tightly integrated them to make them easy to use. They optimized the MacBook early on for specific applications: first publishing, then music, then photos, then video — areas which gradually became mainstream areas. Initially they were niches over the years. Well, Apple gradually took market share away from Windows, and by 2011 was more valuable than Microsoft, which made Microsoft Windows, and by 2014 was the most valuable company in the world.

So different is better than better. Find a dimension of customer need that others in your industry don't compete along. You'll have more time and space to get established. You'll be the best solution for some set of customers, not necessarily the largest set, but some core set of customers. They will buy from you again and again, tell your friends about you, and as they do so you will grow with them. That's being different rather than better. It gives you a very solid core of customers that you can grow from, because so many of your competitors will be well established companies who have much more in the way of resources than you do, you want to compete with them as obliquely as possible in order to be established. And being different is a way to do that.

WOODS: There are so many topics I'd love to discuss. I think people just need to read *Unleash Your Inner Company* so that I don't feel like I missed a lot of points I

should have raised. You should just read the whole book. But I like your point about — you have actually a whole chapter called "Avoiding Competitors," which I think is what you were driving at just now.

CHISHOLM: Yes, exactly. You know, my friend Peter Thiel talks about being a monopoly and finding a way to make your business into a monopoly, and I think I'm saying pretty much the same thing in this chapter about avoiding competitors, only probably in a more socially acceptable way.

WOODS: Right, right. Yeah, that really shocked me, because when I thought about it I thought of course he's right. What he's saying is you shouldn't aspire to be the guy who's always ahead in the competition. You should aspire to be the field. Yes, there are payment processors other than PayPal, in the same way that, yes, there are other places I could buy a book than Amazon. But for all intents and purposes, I'm going to use PayPal and Amazon, and then that's what you should aspire to do. And I thought, yeah, of course that's right now that I think about it.

CHISHOLM: Yes, that's a pretty trodden space, and yet another incrementally better payment processing system is going to face an uphill battle. In those circumstances, one thing you might do is consider how you can cooperate and add value on top of the established players, rather than compete with them directly.

A couple of entrepreneurs came to me recently with again what seemed to be a really cool technology. It was browser-based; it was interactive; it facilitated communications. But we couldn't think of or figure out what a real customer need was that it addressed. Well, after talking with them for about 20 minutes, we finally concluded that it would be a good solution for promoting work group productivity, but every major IT supplier — Microsoft, Google, Salesforce, Oracle, SAP, IBM — all of the nowadays have work group productivity software, so that would face a real uphill battle. So a question is how could they navigate this crowded and well established market space? One thing they might do is adapt their capabilities so it was used in conjunction with the existing players' solutions; that way they're adding value rather than competing directly. In fact, they might even be able to partner with any of those leading IT software providers. So that's a technique an entrepreneur can use in a crowded, well established space like that.

WOODS: Let's skip ahead and imagine you have a successful business now, and you want to scale it. I've talked to T. Harv Eker not too long ago, and he was making the point that some businesses are more easily scalable than others. If your business centers very, very heavily around you as a person and your personal services, well, there are only so many hours in the day that you can provide those services. You can scale yourself only to the point of exhaustion. The business has to be scalable apart from your physical presence and your physical services. So tell us about how the process of scaling, how that works. Is it just simply that I try to make sure that my business can be scaled, and then I just try to do a hundred times what I'm doing already? Surely there's more to it than that.

CHISHOLM: There are two broad techniques an entrepreneur can use to scale their business. One is to improve the performance, the cash flow performance of the business, so that I have more cash that I can invest in the business to further

streamline and automate it. And second is move to a different business model that is more scalable than the one I'm currently using.

So an example of the first technique is improving my gross margins and my efficiency so that I have more money left over after I fulfill the customer's need, and that greater amount of cash I can invest to further automate the business. Let's say that I'm in a fulfillment business. If I can cut the cost of fulfillment in half, that means I've got a lot more cash that I'm generating to expand into different markets or to reduce my price, which lets me reach an even larger number of customers potentially.

The other approach is to move to a more scalable business model. And these are not mutually exclusive, and they overlap. But it's helpful to think of them as two different techniques. Now, what's an example of moving to a more scalable business model? Well, I use the example of furniture making in the book, and generally moving to a more scalable business model means using information more effectively. So making furniture the traditional way, handcrafted furniture in particular, is very labor intensive, and it's going to be difficult to scale without hiring a lot more craftsmen and having lots more manufacturing plants.

Well, what if I could let my customer design the furniture and automate the manufacturing of the furniture using an automated manufacturing technique akin to 3D printing? Well, you can envision providing a user interface online where people can design exactly what furniture they want and then have whatever design they come up with automatically manufactured using numerically controlled devices, and then the resulting piece of furniture is shipped to them.

Well, even that has an obstacle. Some people may not feel well skilled to design their own furniture. So you can envision an even more intelligent front-end application where people simply upload pictures of furniture they like or the furniture that's already in your living room that they want to match a new piece of furniture to. They upload the dimensions of the space that they have available and the software is smart enough to match the designs of the existing furniture, design a variety of potential pieces to the space available, and then let the consumer choose which piece they like the best or which features of different pieces they like the best, and then the software goes through another iteration, maybe several more iterations, to come up with a piece that the customer likes best overall, and then uses the 3D printing to manufacture the furniture.

That's a very different business model from the original but much more scalable. Notice there is very little human labor in these other business models. It goes directly from consumer to manufacturing to shipment to the consumer. So those are some ideas for how you can make your business more scalable.

Generally, adding intelligence to a product makes it more scalable. I use the example of a stuffed bear. And ordinary, conventional child's toy bear isn't very scalable or intelligent, but what if the bear has the ability to talk to and communicate with the child? The initial product might be a very limited vocabulary, and that might appeal to just very young children, but the more intelligent you can make the bear, the bigger and bigger range of children that it can appeal to, not just ages 2 to 4, but ages 2 to

6, 2 to 8, 2 to 12. Maybe the bear can be made smart enough so that it can teach the child. Maybe it can teach the child how to speak English or do math.

Adding the intelligence to the bear probably requires adding some hardware into the stuffing of the bear, things like memory and circuit boards and so forth. And if I can squeeze enough intelligence into that memory and storage and processing in the bear, it doesn't add anything to the physical cost of the bear, but it appeals to a much larger market, and so I'm spreading the development cost of that intelligence over a larger and larger market. That's another way to make your product or service more scalable: by adding intelligence to it.

WOODS: John, as we wrap up I want to shift gears and ask you a more general question about entrepreneurship itself. If you listen to the course of this conversation, the vast bulk of it is aimed at pleasing the consumer. What's a way you can find an unmet need of the consumer? So we're constantly thinking about the end user; we're not thinking about how can we afford a yacht some day and go sailing forever. We're thinking about the consumer, and there are moral implications of that. And obviously, as you well know, in our society entrepreneurship is not held up as the great ideal for somebody to engage in, but yet there is a lot to be said for it from a moral standpoint in terms of what the entrepreneur really does, and I'd like you to comment on that.

CHISHOLM: Absolutely. It's impossible to be successful as an entrepreneur without making the world a better place, because people don't have to buy your product or service. In fact, they're probably taking a risk by buying your product or service, because you're the startup and there are better established companies and alternatives available. So the entrepreneur has to create a win-win between him or her — the entrepreneur — and the customer if they're going to get off the ground. Or else the customer will just go elsewhere.

The entrepreneur also has to create win-wins with their employees, because again, to attract those employees to come and work for you, you have to offer them something over and above what they can get by working for an established company. And again, they're taking a risk, and if it's not a win-win they'll just stick with their current job or go elsewhere.

Same thing with your suppliers. Why should your suppliers sell to you? They're taking a risk. Maybe they won't get paid. So you have to satisfy them that they're going to have a successful experience by selling to you and that you're going to pay them responsibly and reliably.

Same thing with your investors. Why should they put money in your business if you're not proven? So you can see that the entrepreneur has to create win-win with all of the stakeholders in the business, of employees, customers, investors, partners, suppliers — you name it. And so all of the lives of all of these people surrounding the entrepreneur are improving in a small way. If they don't, the entrepreneur won't be successful. So that's one way the entrepreneur is making the world a better place.

Here's another way. You and your listeners I'm sure are familiar with the terms zero-sum, negative-sum, and positive-sum. If you have a pound of meat and I steal that from you, that's at least a zero-sum and possibly negative-sum, because I've got the

meat now and you don't, and the meat that you lost is the meat that I gained, so that's at best a zero-sum overall outcome. If we get in a fight over it because I stole your meat, we're both going to end up with black eyes, and so that's a negative sum. We hear a lot more about zero-sum and negative-sum games than we hear about positive-sum, because zero-sum and negative-sum situations rivet our attention. A game, the World Series: there's a winner and a loser. The Super Bowl: winner and loser. Those are zero-sum outcomes. Wars are usually negative-sum outcomes. Both parties lose.

So we hear a great deal in the news, on the front pages, about negative-sum and zero-sum outcomes. We hear relatively little about positive-outcomes, those in which both parties win, because they aren't nearly as exciting. But the fact is that we are surrounded by positive-sum outcomes, and there are many more positive-sum outcomes than there are zero-sum and negative-sums. Every time you and I or anyone engages in free trade or exchange, that's a positive-sum outcome, because it would not happen unless it were. Neither one of us is compelled to enter in that transaction. It simply wouldn't happen.

Well, the amount of gain on any one of those transactions may be very small, but when you aggregate all of the gain to humanity over the centuries from all of the transactions that are taking place throughout history, that hugely improves the quality of life for mankind, and indeed, if you look at the tremendous economic growth that the world has enjoyed over the last 200 or 300 years, especially since the Industrial Revolution, it is all attributable or largely attributable to the total of the small gains that we've made by trading and specializing and through these series of interactions and transactions that each yield a small gain.

So where do entrepreneurs come into this? Well, entrepreneurs have a unique role in this process, because they create the opportunity for new positive-sum outcomes where none existed previously. And entrepreneurs do that by creating new solutions to customer needs that were not being previously satisfied, and by doing so they create new opportunities for win-win outcomes where they did not exist before. So in that sense, I say in the book that entrepreneurs are a uniquely ethical bunch. They may or may — I don't think entrepreneurs are any different than any other groups of people — doctors, manufacturers, engineers, and so forth — in terms of how ethical they are in the conventional sense of the word — you know, how honest, how trustworthy they are. I think they're about the same overall as these other fields. But they are uniquely ethical in a different sense of the word, and that is that they create new win-win situations where none existed previously, and that helps everybody.

WOODS: John, tell us how people can find out more about what you're doing. Of course they should read Unleash Your Inner Company, but where can they find you online?

CHISHOLM: The book is on Amazon, of course. You can find a direct link to it from the book's website, UnleashYourInnerCompany.com, or from my business website, JohnChisholmVentures.com.

WOODS: Okay, JohnChisholmVentures.com. Okay, I'm going to link to both of those things and to the book itself at TomWoods.com/776. The book is Unleash Your Inner Company: Use Passion and Perseverance to Build Your Ideal Business. Very much worth

reading. We've only skimmed the surface, but as I always say, leave them wanting more, so go out and grab a copy of that. John, thanks for you time.

CHISHOLM: Tom, thanks so much.