LEVAR BURTON: To be an artist has always required that you find a way to solve for the financial equation of the cost of producing your art. In the old days it was a sponsorship system; in Medieval times, which was one of the greatest explosions of art culture on the planet, it was all about finding a rich patron to support you. That dynamic has always been present in the creation of art and the stories that are so important to the advancement of culture.

REID HOFFMAN: If you grew up in the ‘80s or ‘90s, you probably recognize that voice from “Star Trek: The Next Generation” or the kids’ show “Reading Rainbow.” It’s LeVar Burton. Over the years, he’s emerged as a steadfast champion of literature and the arts. He has a podcast now called “LeVar Burton Reads” and a company called LeVar Burton Kids. He thinks a lot about the power of stories.

BURTON: It is literature that ultimately connects us to our imaginations and our own innate birthright as storytellers.

HOFFMAN: Like artists and writers through the centuries, LeVar has grappled with that age old question: After you find your calling, how do you fund your calling?

If you were a painter in Renaissance Italy trying to complete your grand fresco, you might turn to a rich family of merchants. But an actor and educator in 21st century America looking to fund your reading app for kids? You might find yourself cast in an unlikely role.

BURTON: Me, becoming an entrepreneur... I laugh because I've never seen myself as a businessman. And even given the last five, seven, eight years of my life, I still don't see myself as a businessman.

HOFFMAN: Despite his protests, LeVar Burton is a businessperson. He runs a company called LeVar Burton Kids. He’s also a realist. And when he wanted to raise money to create this kids app, he did just what I tell people to do: He went looking for investment.

BURTON: We got no love from Silicon Valley. I mean, no love.

HOFFMAN: Ok, so this is the part of the story we sometimes gloss over. I always encourage entrepreneurs to seek investment. But I also know that sometimes you just don't get the love.

BURTON: After months of meetings and courting and the dog and pony show, I just really came to the conclusion: This is not gonna happen.
HOFFMAN: What happens when you realize funding’s not gonna happen? LeVar took a gamble that many entrepreneurs have made over the last 10 years. He threw his fate into the hands of his fans and launched a Kickstarter campaign to raise $1 million dollars.

BURTON: It was all sort of a shot in the dark. It’s gambling at the highest level, right? You are rolling the dice. The difference is you’re betting on yourself – and I will always bet on me. I have absolute faith in my ability to get it done at the end of the day, no matter what it takes.

HOFFMAN: The gamble paid off.

BURTON: In the end we got a cool million from Seth MacFarlane, which was amazing. Seth refers to his childhood as having chain-smoked books. I love that image, of a child Seth just chain-smoking books. But it was mostly small donations that helped us raise $6.4 million dollars.

HOFFMAN: Levar had one of the biggest Kickstarter successes at the time and allowed the Reading Rainbow app to boldly go where no reading app had gone before.

BURTON: I was unprepared, really genuinely unprepared, had no idea the sentiment that existed in the hearts of that entire generation of human beings who had grown up on the show and were down for making it possible for a generation of kids that they would never know.

HOFFMAN: LeVar Burton and his team showed all the scrappiness you need to succeed as an entrepreneur. When VC funding failed to materialize, he found another way to raise money. And this kind of ambitious iteration can take you to scale. But what if you can’t – or won’t – raise funds of any kind? What if you forego any investment – VC, angel, or crowd-funded?

Well, then you have just one option remaining. It’s not a route I wholeheartedly recommend, and it isn’t for the faint of heart. But it is an option worth considering, under special circumstances. It’s bootstrapping.

And I believe you can bootstrap your way to scale, but you’ll have to catch the crest of multiple waves of good fortune.

[THEME MUSIC]

HOFFMAN: I’m Reid Hoffman, founder of LinkedIn, partner at Greylock, and your host. And I believe you can bootstrap your way to scale, but you’ll have to catch the crest of multiple waves of good fortune.
If you’re a regular listener to this show, you know that I generally favor blitzscaling – or super fast growth. In order to blitzscale, you need a war chest – not just of money, but also expertise and support. And you need it fast, so you can outpace your competition.

This need for speed is why I almost always encourage entrepreneurs to raise money – and in fact to raise more money than they think they need.

But blitzscaling isn’t for everyone. It’s a proven method of getting explosive momentum behind your idea, and establishing it before anyone else can steal your thunder. But there are millions of entrepreneurs whose plan of attack is to grow at a moderate pace. They want growth, but with contained risk.

We have a lot of those entrepreneurs in the audience for Masters of Scale, I know that from reading your tweets and emails. This episode goes out to you.

Listeners like Jason Parker, who is opening a sandwich company in Wasilla, Alaska.

Maggie Ma in Englewood, Colorado, who launched a home services app called Realtivity.

Adam Mitcheson in Manchester, England, who co-founded AI-powered mentorship platform my2be.

Maral Kalajian, co-founder of children’s learning app Peppy Pals.

Even artists who find inspiration for scaling their work from this podcast, like the band Dana and the Wolf in Burbank, California.

And of course, nine-year-old Eli Smit from New Zealand, creator and host of the “Ground Breaking” podcast.

I’m endlessly moved by your persistence, resilience, and scrappiness. I’m as delighted as you are when you scale like your better-funded rivals. But I also can’t resist nudging you here and there to re-think your decision – and to consider how you might grow if you took more investment.

And you’ll hear that all throughout this episode with the delightful Ben Chestnut, CEO of Mailchimp. Ben built a company around a strong simple service and a quirky brand that sees annual revenue of $600 million dollars – and he never raised a dollar of outside funding. Ben’s story is the exception that proves the rule of blitzscaling.

Ben was immersed in a do-it-yourself ethos from an early age.
BEN CHESTNUT: My mother ran a hair salon in our kitchen, but the word "entrepreneur" wasn't being used. This was just a way of life. This was called "making money", "paying the bills".

So the house was always full of customers. I would help. I would grab the broom and sweep up hair off the floor and empty ashtrays and organize rollers. And I joke around sometimes, to this day, if I close my eyes and I think about is there a smell for "business"? It's cigarette smoke and perm.

HOFFMAN: I think that's the first time I've heard that.

HOFFMAN: This early grounding helped Ben in later life – and not only in business. It also came in handy with his high school sweetheart.

CHESTNUT: The first time she invited me over to her house to meet her mother, I walked in, and she ran a hair salon in her kitchen, no joke. So I knew exactly what to do. I grabbed the broom, and I started sweeping the hair. I made a really good impression.

HOFFMAN: Ben married that high school sweetheart, and they remain together to this day. Another childhood experience that served him well was his first business: Making flipbook animations with sticky notes. He sold them to other kids.

CHESTNUT: My marketplace was the school bus, and I would go on and I would show some kids and they just had to have it, and I would charge a dollar for each one. I kind of evolved. I would make 3D flip books, and you have to draw the same thing with red ink and then blue ink, just offset. Highly unscalable business.

HOFFMAN: Unscalable but very creative – and cool for a kid.

HOFFMAN: It may have been unscalable, but that didn’t stop Ben from trying to keep up with demand, not just in quantity but also in complexity.

CHESTNUT: Well, with these sticky notes, you know, they would just be maybe a car driving across and then people would want more. So I'd make a jet flying across and then they would want more. So I’d make a jet dropping a bomb on a car and exploding and the tires would bounce around on the screen.

HOFFMAN: This is the kind of rapid iteration Ben would later perfect to give Mailchimp an edge over its better-funded rivals. But for now, we're still talking about hand-drawn comics.

CHESTNUT: It just got more and more elaborate. I was hand drawing them in 3D and that became pretty onerous. Later we pivoted to candy and candy's a lot more scalable.
HOFFMAN: That pivot to candy was short lived. Ben returned to his design roots by the time he graduated college.

CHESTNUT: I got a job as a banner ad designer actually, which was even more invigorating than web design, because it was so fast paced and you got results fast.

HOFFMAN: Ben got a tip that the company was in trouble and preparing to close down. So he began to hustle.

CHESTNUT: I had a month's heads up about the whole thing, so I had time to plan my life. I thought, well, this is our chance to start a company. My business partner and I went out, and we got clients. We went knocking on doors down the hall from our office, and we got paying projects. We got a $13,000 project and a $32,000 project before even getting a business license. So I was ready to go.

HOFFMAN: Well, that is probably the definition of "hustle".

HOFFMAN: Notice that when Ben and his co-founder, Dan Kurzius, started their web design firm, they didn't look for investors. Instead they found paying customers.

And there's nothing wrong with paying customers – that's a great way to start a business. But this early point is where I typically suggest entrepreneurs also look for angel investors, whether it's friends and family or professional investors.

But entrepreneurs don't always realize this is an option for them. They bootstrap because they don't think there's another way. And this was the case for Sara Blakely, who bootstrapped the billion-dollar business Spanx, from her own initial $5,000 investment.

SARA BLAKELY: I talked to so many people and I didn't even know that I could go try to raise $40 million dollars, Reid. And I think I'd be not quite as tired right now. I'm really tired.

HOFFMAN: But your demonstration of grit is simply awesome.

HOFFMAN: Unlike Sara, Ben and Dan knew that investment was an option for them. But the state of the tech industry at the time made them wary of venture capital.

CHESTNUT: Remember, this was also 2000 when everything was melting down. There was a real suspicion of the VC world, like they were the ones who caused all of this. So it influenced a lot of our style and how we ran the business. We wanted to bootstrap it. We wanted to keep it simple and pragmatic.
Hoffman: I admire Ben’s desire to keep it simple. And this quality may well have been Mailchimp’s secret to success. But it was slow going for Ben and Dan at first. And this is the thing with bootstrapping. It takes time.

Chestnut: It was hard. It was a grind, the billable hours game, and we were bad at it and we just weren’t natural salespeople; shy, you know, shy geeks, I guess. And the name of our business was Rocket Science Group and with a name like that, you can’t make any mistakes. So clients would be really angry at us.

Hoffman: Like those animated flip books Ben sold on the schoolbus, web development was not scaling very well.

Chestnut: We had crazy expectations for the consulting side of our business, and I think that’s why the revenue was always so flat. We were too hard on ourselves there, striving too much.

Hoffman: This is the point where I believe the right kind of investors could have helped Ben, because strong investors bring so much more than money. Think of your investors – from your angel investors on – as part of your team. Each person and organization you add to your bench brings you key experience and insight.

Don MacKinnon is the unsurpassed expert in finding just the right kinds of investors – and lots of them. He’s gone down what he calls the “endless angels” route twice. First with Hear Music, the company he started the day he graduated college, and which he went on to sell to Starbucks. And now again, with his current company, Milq. That’s Milq with a “q.”

Like Ben, Don became a founder right around the time of the dotcom bubble. And he was at its center.

Don Mackinnon: I absolutely remember being in San Francisco, driving down 280 and seeing all the billboards. Every week it was a different billboard that had been bought by whatever crazy internet startup had gotten funding. So I felt an incredible amount of pressure to do it.

Hoffman: And like Ben, Don was wary about jumping aboard the easy money train. Hear Music was making money and growing at a pace that Don was comfortable with. So rather than seek VC funding, Don went down a route he calls the “endless angel route”. He just kept adding angel investors at smallish dollar levels, and avoided a formal Series A investment round.

Mackinnon: In the very beginning, it was much more of a classic friend and family round, where you end up with folks who are putting in modest amounts of money to sort of get you some exit velocity. But then from then on, you really needed folks who understood the industry – or at least had experience growing a business.
HOFFMAN: Don eventually acquired 47 different angels. I think this might be a record. And if you're careful about who you bring in, your angel investors can give you the same kind of value as a venture capitalist.

MACKINNON: We were super lucky to assemble what may seem like an insane number of incredibly good angels: different people from different perspectives able to help us with technology, culture, licensing, finance, and they had seen businesses grow. So a lot of what you need from a VC are contacts, strategic advice, and can they be there when you're ready to go to the next level?

HOFFMAN: But even if your angel investors understand your business, you still have the problem of managing all those expectations.

MACKINNON: We did experience the challenges of 47 investors with Hear Music, who had all different expectations, all different understandings of what we were doing. And particularly the challenge of we were a business that did not know exactly what it was going to be. And the ground was shifting underneath our feet – it wasn't just that we weren't sure, it was that the actual landscape, competitive landscape was changing beneath us.

HOFFMAN: When there are that many unknowns – about your market, your product, and your aims – the VC path is probably not right for you. Especially if rapid scaling is not part of your plan.

MACKINNON: I think of VCs as booster rockets. If you've calibrated your trajectory and you know exactly where you want to go: "I want to bounce off the gravitational pull of the Moon and end up over there at Mars and I just need the fuel to get to my destination with some good, smart people alongside." Then I would have felt totally comfortable doing that.

But VCs come with a very understandable time frame on which things have to happen, and so you end up failing fast or succeeding fast.

HOFFMAN: If your aim is rapid growth, VCs are the rocket engine. But like any explosive form of propulsion, timing is key. Now, I'm not going to recommend you take the "endless angels route". But the right team of angel investors can certainly help you break through the moments when you're spinning your wheels.

Which brings us back to Mailchimp. Recall: Ben and Dan had found themselves in a trap. They were struggling to scale their web development business. They were running as fast as they could. But they were in a hamster wheel, going nowhere. It's a trap many early-stage founders fall in to.
You might not even realize you’re in that trap until it’s too late. You’re expending energy. There’s motion. And you can mistake the squeak of the wheel for the sound of progress. You’ll die on that hamster wheel, unless you gather the courage to make a death-defying leap. This is when an experienced investor can be invaluable. They can help you see that wheel for what it really is. And show you where your energy and skills can be put to far better use. As you might have already guessed, Ben and Dan found a way off that hamster wheel.

CHESTNUT: We noticed every customer – big or small – asked for the same thing: email marketing, every one of them. And we would use whatever software they had – and we hated the software.

HOFFMAN: Ben hated the email marketing software available at the time. So they built their own in-house email software for their clients. It let them build email lists and campaigns efficiently. But it was almost too efficient.

CHESTNUT: We would use it, it would take us 10 minutes. To send them an invoice for 10 minutes worth of work, even if you round up to an hour, these are tiny checks. And honestly, I ran out of deposit slips for my bank, because I had so many little checks and I hated – this is embarrassing – I hated getting out of my car, out of the drive through lane in the bank, and going in to get deposit slips. I hated it so much, Reid.

HOFFMAN: It's a problem.

CHESTNUT: And so I said, "We've got to find a way to accept credit cards online." And that was what turned Mailchimp from a product that we used internally to basically one of the first SaaS companies. This is late 2000.

COMPUTER VOICE: A SaaS company is one that offers “software as a service.” That term was first used in 2001.

HOFFMAN: By accepting credit cards for Mailchimp, Ben had solved two problems. First, he no longer had to deposit piles of small checks. But more importantly, customers now had direct access to Mailchimp. Ben and Dan had turned this internal tool into a product that could scale.

It was their escape from that rickety hamster wheel of death. This is the kind of discovery that changes the course of companies. It’s the eureka moment every scale-focused entrepreneur lives for. So Ben and Dan immediately doubled down on this idea, right?

CHESTNUT: By 2005, we had kind of, sort of forgotten about Mailchimp.
HOFFMAN: They set Mailchimp into motion – and then pretty much ignored it. They got straight back on that hamster wheel. Because they thought – as many early stage entrepreneurs do – that the hamster wheel was their "real" business.

CHESTNUT: So five years later, Mailchimp is just the side project running on its own. And the thing is the income we were getting from Mailchimp, we weren't watching it.

HOFFMAN: And the hamster wheel – it was wearing them out.

CHESTNUT: The billable hours game got to be too hard for us. The agency just wasn't scaling and we were thinking about giving up actually, we were talking about winding down the business.

HOFFMAN: Then they remembered their little side project.

CHESTNUT: And so my partner, he looked at Mailchimp and he did our first ever Excel spreadsheet for our business. And it was Mailchimp's revenue, and it was climbing up and to the right – and the consulting business was just flat and maybe even declining. He said, "That's it, have faith in the math. This is what we should focus on."

HOFFMAN: “This is what we should focus on.” These are the words that mark every great pivot in a company’s path. You find those moments when you watch key metrics, and yes – build spreadsheets.

I suspect well-matched investors might have helped Ben spot the potential for Mailchimp sooner. They definitely would have given Ben the confidence to go all-out in pursuing it. And that confidence matters. All Ben and Dan had were those figures. Promising as the numbers were, they still hesitated.

CHESTNUT: It took all year to really convince ourselves to do it, because it felt like, “Oh, my God, you're going to go from $25,000, $50,000 website gigs to $25 Mailchimp accounts?” It was very scary to make that jump. So it took all of 2005, I think, to work up that courage.

HOFFMAN: That’s right, it took them another year to make that leap. Remember: Their product was already out there. Yes, it had huge scale potential. But it was also easy to replicate and improve on, and any potential competitors could do this. Competitors who may very well have a blitzscale mindset and access to VC funding. Finally, Ben and his team made the decision to go all-in on Mailchimp.

CHESTNUT: End of 2005, we kind of had an official vote, four people at the time. We decided, “Hey, we're going to do this thing. We're going to take the leap.” In 2006, we said goodbye to our consulting clients. We found new vendors for them, kind of tried to
get them all to consider Mailchimp. Then in 2007, we started as a software company. That was our day one, January 1.

HOFFMAN: Now they had a promising product that was scaleable – and already generating revenue. But they needed to grow it. And they were still determined to do it without outside investment.

HOFFMAN: One thing that's actually entertaining is you're in a counterexample to a lot of what I talk about in blitzscaling because you bootstrapped to scale, which is atypical, right?

There is a question of whether or not it's just a limitation of the blitzscaling theory or whether you're the exception that proves the rule. It's an interesting question, which I hope to discover a little bit in this discussion. You were approached by VCs. You didn't think VCs were a good idea. Why was that?

CHESTNUT: We had a big competitor, named Constant Contact, and they were doing very well, because they were focused on their business, and we were treating it as a side business. I think they might have started roughly the same time that we did, in '01 or something like that.

HOFFMAN: Constant Contact is an online marketing company that is still going strong today.

CHESTNUT: So we were looking at Constant Contact as sort of inspiration, a competitive inspiration for us. And they had just gone public, and they got a nice IPO – and that is what made venture capitalists come knocking on our door.

HOFFMAN: Most startups dream of having VCs knocking on their doors. Especially at this moment when speed matters most. When you're trying to catch up, or to get ahead – this is exactly when you most need investment.

But Ben and his team were already sceptical about VCs. And these first meetings reinforced their belief that investment wasn't for them.

CHESTNUT: Most of them pitched this idea like, "What you've done here is great, it's wonderful, it's cute. Let's invest and then we'll help you move to enterprise because that's where the real money is." I couldn't stand that. I remember my mother. I thought about building something that would empower small businesses to scale out of the kitchen.

HOFFMAN: The story these VCs were telling Ben and his team didn't align with their vision for the company.
CHESTNUT: I think that in retrospect, things didn't quite jive with us because I don't think that they understood SaaS. It was still new and they didn't understand SaaS for small business, like the unit economics – it just didn't make sense to them. It felt like they were more like alien beings from another era trying to tell me how to run my business – and it felt like they were missing some kind of a boat. I just thought, “No, you're not making any sense. You don't seem to understand what we're doing here.”

HOFFMAN: When you run into an investor who doesn’t understand what you’re doing, whose logic doesn’t make sense to you – or who tries to convince you to take a direction you strongly believe to be wrong – trust your instinct. You'll almost always know more about your product than your investors. And if they feel like an alien being, do what Ben did and walk away.

CHESTNUT: Always, there was an ulterior motive. Because of that IPO of our competitor, they seemed to always be comparing us to them: “Maybe you can catch up. Take our money. You can go public like them.” Or “We can help you merge with other smaller players, roll it all up and be a number two.”

And being number two wasn't interesting to us. So none of those things were particularly motivating. That was the problem, was that they were not very good motivators.

HOFFMAN: Listen again to Ben’s observation on these VCs.

CHESTNUT: They were not very good motivators.

HOFFMAN: Anything that is not a motivator when you’re scaling is a drag. And an investor who doesn’t understand you is one of the biggest impediments you can have. You have to find investors who are the right match – for your product and your personality. It’s one of the reasons I advise founders seeking investment always to look to take on multiple investors over time, not just one. But there was another motivational factor at play here. And it’s important.

CHESTNUT: We were eating off the McDonald's value meal. We kind of fantasized about being able to walk to the other side of this retail center and eat at Fuddruckers, because they had these $8 hamburgers. We thought, “If Mailchimp could just make enough money every month to pay our lunch every day, we would eat there instead.” It sounds ridiculous now, but that was really all the expectation we had.

HOFFMAN: When your ambitions aren’t much more than an upgrade to your lunch options, you’re probably not a good fit for VC funding. I say this with good humor to match Ben’s tongue in cheek style. But it’s a serious point. Not everyone aspires to scale. Not everyone wants to bring the level of ambition and pressure into their lives that VC funding brings. And not every business is cut out for it. But also, not every business that wants funding can find it. And what then?
KAREN CAHN: The problem we're working on solving is that there is a complete lack of funding options for early-stage entrepreneurs. Only 1% of founders, regardless of their gender, will ever raise venture capital. So what do the other 99% of us startup founders do to fund our businesses?

HOFFMAN: The voice saying these sobering statistics belongs to Karen Cahn. She was an early Googler and is the founder of iFundWomen, a platform that helps entrepreneurs raise money through crowdfunding. Karen is an evangelist for the power of crowdfunding to help the 99 percent. But she wants to be clear: this is not an easy path.

CAHN: There are no magical money elves hanging out on Kickstarter or Indiegogo or Patreon or GoFundMe or any of the big platforms, waiting to sprinkle money on your campaign. That's just not how it works

HOFFMAN: There are no magical money elves in any kind of fundraising, just to be clear. But when you crowdsource, Karen says you have to be cautious about how much you try to raise.

CAHN: Entrepreneurs tend to completely overshoot. They'll say, for example, "I need $1 million to fund my MVP."

VOICE: MVP stands for minimum viable product.

CAHN: And really, do you need $1 million? Probably not. You probably need maybe $10 or $15,000 to get your app built, a crappy version of your MVP, just enough that you can have some people beta test it and it doesn't break – or it might break, that's okay.

HOFFMAN: Karen's advice points to a key difference between crowd-funding and the kind of fund-raising I recommend for blitzscaling. When you blitzscale, you want to raise far more money than you need. When you crowdsource, you aim for the bare minimum. But there is a place where the two approaches – blitzscaling and crowdfunding – align.

CAHN: Put out a really crappy MVP, build it for cheap, and see what your users are going to say about it. Test, learn, iterate.

HOFFMAN: Even if you're long done with your minimum viable product, it doesn't mean your crowdfunding days are behind you.

CAHN: Crowdfunding is great for companies at any stage. In fact, there are Fortune 100 companies doing R&D on the crowdfunding platforms, to see what consumers like. Then of course, there are early-stage ideas where you don't even have a website yet.
Any stage company is right for crowdfunding because what crowdfunding allows you to do is to prove demand for your product or service, to see if they actually want what you’re selling before you invest in making it. That is the beauty of crowdfunding, that's the genius of it frankly, that I don't think is really talked about a lot.

HOFFMAN: But back when Ben was starting to scale Mailchimp, there was no Kickstarter. There were no crowdfunding platforms. What they did have was good old-fashioned customers.

CHESTNUT: Mailchimp was just making lots of recurring income for us, and we were quite content. So we decided to go it alone and bootstrap.

HOFFMAN: Funding choices are often a combination of strategy and luck. When you choose to bootstrap, you have to make your own luck. After the ad break, Ben and his team struggle as underdogs, hit a few waves of good fortune, and then happen upon the surprising viral loop that helped them bootstrap their way to scale.

[AD BREAK]

HOFFMAN: Before the break, Ben Chestnut decided to forego VC investment, and instead opted to bootstrap. And when you bootstrap, you forego cash, speed, and support. You have to be scrappy. And you have to be lucky. Fortunately, as you'll see: Ben was both. For example, nearly every VC had advised him to take the money and build infrastructure.

CHESTNUT: They would say things like: "Buy servers."

HOFFMAN: Fortunately, Mailchimp was scaling at exactly the time when new hosting technologies were driving down the cost of storage space. It was another lucky wave that Ben and his team took maximum advantage of.

CHESTNUT: Managed hosting was a new thing, right? So anything we looked at, the prices just kept falling. And then AWS came out.

SIRI VOICE: AWS stands for Amazon Web Services, a cloud computing platform that offers on-demand server space.

CHESTNUT: So everything just kept changing. Technology just kept advancing – and I don't know if that's a function of like we were lucky that everything just kept falling in our laps or we were always on the lookout to take advantage and leverage new things. I don't know which one it is, but –

HOFFMAN: The answer to that question is usually some of both.
HOFFMAN: Ben was now riding the wave of managed hosting, which kept his costs down, even as he scaled.

Mailchimp was making money. But there was a problem. When Mailchimp launched as a side project, it had been light years ahead of the competition. But they had let it stagnate. In the meantime, other competitors had caught up with – and exceeded them – in terms of features. Mailchimp’s customers were beginning to desert them for their competitors.

CHESTNUT: That's scary when you commit to something and they're leaving.

HOFFMAN: Ben put a toll free number on the Mailchimp website and asked customers to call in with their most-requested features.

CHESTNUT: And so they started to call us and they gave us all the features that we lacked. And we had this whiteboard in our office, it was like five columns of features that we needed to build. We were like, “How are we going to get this done?”

HOFFMAN: They had to get all these new features out fast if they were to stop the user exodus. This is where cash helps. You need to catch up fast. You need to hire fast. You need to pull ahead. That’s a problem you can throw money at. Money won't solve it, but it helps. If you don't have cash, you need stamina. Look, even if you have cash, you need stamina. But without it: Get ready for a grind. That’s what Ben and his team did.

CHESTNUT: We hired a rock star engineer. He came in and he just started to knock them out, one by one.

HOFFMAN: Ben and his team also needed to get the word out that they had these new features. And that more were on the way. They lacked the money for a big PR push. But Ben stumbled on a way of getting the word out to their most passionate users.

CHESTNUT: Every time we launched a feature and I blogged about it and tweeted about it, we got retweets and comments and more sales. That was working for a while because it was, to me, it was just a Band-Aid. Real publicity would've been PR, right?

HOFFMAN: But what Ben first thought of as a band aid soon turned into their most powerful marketing tool.

CHESTNUT: I brought on somebody, a good friend named Neil Bainton. I was telling him, you know, what are we going to do with marketing? He was like, "Well, what's working?"

I said, "Well, we code and then we blog and then we tweet."
And he said, "Well do that, do it again."

And I would say, "Everybody's sick of it by now."

He was like, "No, they're not. Keep going until it stops working." And that was the lesson he taught. Like, don't be afraid to beat a dead horse if it's working. Keep going and hire people to keep it going.

HOFFMAN: “Code, blog, tweet, repeat” was one winning mantra for Ben and his team. And another one was: Go with the new. When you're bootstrapping – and even when you’re not – you have to figure out where you can get the most leverage. Often, it’s the newest platforms. For Ben and his team it was Twitter.

CHESTNUT: Twitter was kind of new at the time. We were getting amazing customer feedback through that. Any kind of channel that's new, you need to be there on the ground floor before everyone else crowds it up.

HOFFMAN: Ben and his team got thousands of pieces of feedback from their customers, who loved seeing the features they suggested being implemented. From the “code, blog, Tweet” philosophy sprung a community of passionate Mailchimp fans.

And these fans helped Mailchimp hit upon their most important innovation. It's a common method now, but back then it barely had a name. This is the kind of viral loop that VC-backed startups throw money at to discover. And Ben and his bootstrapping team had hit upon it almost by accident.

CHESTNUT: We were actually trying to split our product into two and then to offer a list building tool for free, and then if you wanted to send email, you would have to pay us money.

HOFFMAN: However, the code powering Mailchimp was too old to be changed without serious reworking. This would take too much time. Ben’s lead engineer had a suggestion.

CHESTNUT: "You need to think about maybe offering the entire product for free, because that would be a lot easier, but just limit the size of the database."

HOFFMAN: It was the ultimate try-before-you buy. Users could immediately see the benefits of the full product. It’s a model we are familiar with today, but at that time it was just gaining traction. Ben drafted a blog post to promote the new model.

CHESTNUT: I had the blog posts ready to go. The title was something like "Mailchimp free plan, blah, blah, blah". And then the next morning I came in ready to publish it and there was a book on my desk.
HOFFMAN: That book by Chris Anderson is titled *Free*. It described and helped popularize the term “freemium.” This model of offering a free, but cut down version of your service to supercharge user uptake had been around in some form or other for decades. But it was becoming hugely popular among web services around the time Chris Anderson’s book came out in 2009.

CHESTNUT: I said, “That's the word. I'll use that word instead.” So I said: "Mailchimp Goes Freemium."

HOFFMAN: It was another example of Mailchimp riding a wave to scale.

CHESTNUT: Okay, so this kind of takes off a little bit, right, and then a guy named Charles Hudson emails me and he says, "I'm doing this freemium summit. Can you come out and talk about this?"

So I went out there and there was a guy named Drew Houston talking about freemium. He had this new idea called Dropbox. Phil Libin was there. I mean, it was this –

HOFFMAN: I know all these people.

CHESTNUT: Of course, and they're huge now, right? This was like the early days of freemium and SaaS and that's how it all – it was all kind of little bit of luck.

HOFFMAN: The freemium model was particularly suited to Mailchimp. Every new customer would be setting up an email list. And each of those recipients would see that their mail was coming from Mailchimp and that they could try it for free.

HOFFMAN: What did you discover from that freemium launch, and then how did you refine it – because again, I think part of blitzscaling is getting to these interesting correlations between the business growth and the business model.

CHESTNUT: We discovered it was the best marketing you could ever, ever do. It's free marketing. And within a year we had gone from like several hundred thousand users to a million and then by the next year we were at two million. It's all a blur to me now – but it just kept growing.

HOFFMAN: “It just kept growing.” Ben and his team now had the flywheel turning. It’s the fluid, fast-moving moment that entrepreneurs dream of. And if you’ve bootstrapped your way, as Ben did, you might have the mindset that you’ve arrived. The business is now sustainable. And you're free from fundraising.
But I’d argue that this is actually time for more investment. In VC terms, it would be the Series B, Series C, Series D rounds – bringing higher and higher levels of investment to enable you to not just dominate one market, but expand into others.

Hitting this correlation between business growth and business model is key to blitzscaling. Mailchimp got it right through a rare combination of luck, tenacity, and skill.

However, I believe if they had found the right VC partner, they could have hit upon it sooner, and scaled far more rapidly. Listen to Ben talk about his approach to analytics.

HOFFMAN: When did you start figuring out dashboards and the analytics of all this stuff?

CHESTNUT: Oh, when did we start caring about our analytics?

HOFFMAN: Yes, exactly.

CHESTNUT: Gosh, that's a good question. I think to this day I still keep it very simple, myself. I obviously have a CFO who cares about it. He has big fancy reports, but I really say, you know, "How much money did we make this month? Is it growing? At what rate?" That's all I really care about. I keep it pretty simple.

HOFFMAN: I suspect in the road ahead of you you'll start doing analytics about like how the freemium ties to your virality system, and how customers pick up, and what that funnel looks like and so forth, because that loop is usually what happens in these things. My guess is you'll unlock a new phase of growth as you get there.

CHESTNUT: Yeah, we have teams working on those. And it's so funny. It's almost embarrassing, it's just now that we're having the time to circle back around and look at it because it's just been money being handed to you, hand over first. You don't count it, you just bank it. But now we're going back and looking at it and we're like, "Wow, we did not – this is inefficient. If we just make this a little more efficient, we are going to get…"

HOFFMAN: You're going to find interesting growth things there. I mean, part of what it is, you caught a tsunami of email being super important and being a channel of very broad communication and having a high quality tool for that. And at some point you just kind of try to stay on the surfboard as the tsunami is going.

HOFFMAN: Ben’s “keep it simple” approach is part of his charm – and I suspect part of what's driven his success. But I’d still argue that with VC backing, these inefficiencies would have been ironed out far earlier. Fortunately, throughout the Mailchimp story, Ben kept pulling the correct levers to supercharge the viral loop that brought them more and more users. I couldn't help diving deep into this when I spoke with Ben.
HOFFMAN: Actually, I look forward to seeing what you're going to do with the business once you start really compounding with the virality curve looks like, right. Because part of a freemium model is freemium and virality work together. And the instrumentation of: This is a free sign up, they send out emails to people, those people sign up, you know – kind of in that classic pattern. Once you start instrumenting – you're getting the benefit already – but once you started instrumenting the tuning will be super interesting.

CHESTNUT: Please tell me more. I'm getting free advice here.

HOFFMAN: The question I was gesturing out with the dashboard is the kind of the analytic of what happens as you pick up customers, they send out emails, some of those people become customers, how they send out to other people, what does that look like that is powered by a freemium model?

Then you begin to look at cohort analysis, A/B testing, which things lead to customers trying the product in the first place. That kind of loop is a compounding loop and most massive scale things – intentionally or unintentionally – get into a compounding scenario.

Now, some of the unintentional – or at least quasi-intentional, is probably the right word – is to say catch the wave, the internet, right? Like, "Go, this is the future, computers are the future." Some of it's also where you instrument it more, like virality is both art and science.

CHESTNUT: Love that. Do I have to pay for this?

HOFFMAN: No.

CHESTNUT: Well you should charge for this. This is... wow.

HOFFMAN: That's the thing – when you have the right kind of investors backing you, you really do get that kind of advice – and much more. And while I greatly admire the tenacity of Ben and everyone who bootstraps, my hope for each of you listening is that you give a thought to what investment might bring you: More speed. More support. And yes, more on-target advice.

I'm Reid Hoffman. Thank you for listening.