
# GE 17: The Sales Process that Grew EchoSign to $100M in Revenues with Jason Lemkin (podcast)

## Growth Everywhere Podcast Transcript

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Eric: Hello everyone. Welcome to this week's edition of "Growth Everywhere" where we interview successful entrepreneurs and bring you; business and personal growth tips. I'm your host Eric Siu and today we have Jason Lemkin who's a co-founder of EchoSign. Jason how're you doing today?

Jason: Doing great. Thanks for the time Eric.

Eric: Yeah. Thanks for joining us. So yeah, Jason, why don't you give the audience a little bit about your background and then we'll go from there.

Jason: Sure. So, I'm a repeat founder CO. My last company is a company called EchoSign which was bought by Adobe on July 15, 2011 at 3:01 p.m. I do remember it well. Then I was the vice-president of web business services at Adobe and from inception of EchoSign in January 1st of '06.

Through that, grew that business from zero to, what is now, a hundred and forty-four million in referring revenue at the end of last year. So, I sort of…What's interesting about me, at least in the Sass world, in this B to B world, I've done the zero to a hundred million journey, I've made a ton of mistakes, and I kind of decided, back when I was a corporate vice-president at Adobe, to the extent that I was allowed to, that I would just start sharing some of these learnings.

And so as you know we kind of built a community around this called SasStr, we've got a half a million folks read this stuff every month. It's all about going from ten customers and whatever that revenue may be, a thousand dollars, a thousand dollars a month, to sort of ten million, that kind of journey from, you know, having something where ten people actually buy your product to what I call initial scale, ten million, when you can no longer be killed right. And so the goal is to share all the hard learnings, what worked, what didn't, how not to hire the terrible VP of sales, what marketing really does, how to think about customer success so that ultimately you can do even better than me. That's my goal.

Eric: Got it. Perfect. And I think everyone that's watching this needs to read Jason's blog and also his answers on Quora. There's nothing out there like it right now. It's pretty much…Its world class stuff so…literally, everything. So Jason, how did you guys get the first one hundred users for EchoSign?

Jason: Yeah, and you know, times were different, right? So, the way we got our first hundred, in fact it worked well for us up to a point, was really just press right? Today we call it content marketing. Things are a little bit more sophisticated. So, some things are different and some things are changed. Literally we launched on TechCrunch back when there were like two TechCrunch posts a day in '06. No one read TechCrunch back then. It was just this funny little blog, but it was enough to get us going, right? And so, my uber learnings from all that, and I'm a huge fan of PR content marketing, whatever you call it today, is for most…for B to B services it's not enough, okay?

You can't have this magical, [what's app] explosion just hot off some press. But it can help. It can really help. It can get you some of those first ten customers or the first twenty. That's not enough to build a hundred billion dollar business, but if you do it right it may be enough so that you can really learn and get you in the pipeline.

Eric: How did you get to that next level, I mean, the initial PR bump hit, right, but what got you to the first thousand or first ten thousand?

Jason: Yeah, I think...So in some ways I did everything wrong because I hadn't done it before. We launched without clear pricing, which I learned was a disaster for a paid service. We launched with the wrong messaging and the wrong marketing position and the wrong everything. But we sort of just did one thing right in the beginning, right? We really just did two things. And it wasn't enough, but… It was enough, but we could've done better. We did two things: one; whatever customer we had we lavished them with just incredible attention. I know this seems obvious maybe to most people today, but you get ten customers, at press they pay $10 a month. We call that beer money. All we did with our first hundred or so customers is drink beer because it couldn't even pay one inch in your salary.

So that was…I didn't think it was very funny, but everyone else thought that was funny. But what I knew…Here's the one thing I knew from the twelve months, and they were really rough the first year, here's the thing. I knew for every one customer we had, we could get another. For every Qualcomm we could get a GE. For every BT we could get a Dell. For every wedding photographer that used EchoSign, even though we had one to start, I knew we could get two. So, ultimately my goal was to just double down on whatever was working.

And I only knew how to do two things: one; keep the customers we had happy; and two; how to try and keep up the content marketing PR staff, so the viral engine, or at least the word of mouth engine could run. And the uber learning was it all worked, okay? But the problem is, if you want to get word of mouth and virality working in B to B verses B to C, it just takes longer. So, literally it took eighteen months for that engine to work. Because you think about it, I signed up for the product, which was Microsoft. I try it for thirty days, right? And then maybe I convert to pay.

But maybe it takes me three or four, six months to fall in love and then to interact with enough people through a contract, or whatever it is, that will create a second generation customer. And it took us eight months from paid to generate a second generation customer. And if you go back in time since in the first quarter we had ten customers it was really hard for that viral engine to get momentum for about two years. But, once we were into about twenty-four months the viral and word of mouth together, what I call mini-brand, was consistently the majority of our revenue. But that just can't happen in the beginning, right? The engine isn't learning yet.

Eric: Got it. Yeah. So,…

Jason:A different way I've looked at it, we can talk about technical things, but I really think the key to all this stuff in Sass is to do whatever it humanely takes to get a million in referring revenue. Get up to eighty-thousand, fifty-thousand, a hundred-thousand a month. And there's a…There's only so many things you can do, but you don't know which one will work.

Once you get up to a million in revenue, then everything works. Then at two million it all becomes programmatic and logical. But we're all going to have to find different ways to get to a million. If you know how to sell, maybe not by training, but by background, maybe you'll just literally grab a bag and magically create a million customers out of thin air. If you're terrible at sales, but you're brilliant at content marketing, maybe you'll build an incredible community. Like the guys say at Buffer did, "Go for just a brilliant community."

I don't know, but in the beginning you've got to hack it with whatever of the panoply of things you can do to your customers, that's your best bet. For us, for me, it was shower what we had with love. I was good at that because I think I was just so thankful that we had any customers; and to be enthusiastic, to try to get the PR attention just through sheer passion for what we were doing. Those were the two things I was good at and I was pretty much terrible at everything else.

Eric: The recurring theme, I've repeated it so many times, is it's just doing the things that don't scale. Every single entrepreneur has done that in the beginning. It's literally, that's what it's been. And we talked about…

Jason: It has to be the ones that work for you. The thing is if it's unnatural…I tell you I was good at cold calling to big companies. I could call up, you know, I cold called into Google and we closed Google that way. But then when I had to close like some debt consolidation firm in Indiana and make fifty calls a day, I just couldn't do it. I wasn't the fifty call a day guy. I mean, I desperately wanted this company, which was about to go under, to survive, but I couldn't do the fifty. Other people can do the fifty. So, I could do the large deals, so yeah, this sort of stuff that doesn't scale, but you have to pick the ones are a good match, because if you go out and do this stuff that doesn't work for you, it's hopeless.

Eric: I think everything's really, I mean you read a ton of articles out there, even your article, so everything at the end of the day, it's done, I mean you do it for yourself based on the case by case basis. You don't have to necessarily emulate what people are saying. What works for someone else might not necessarily work for you. And I think a lot of people need to understand that because… Just because you see data here that proves something doesn't mean it's going to work for you, right?

Jason: Yes, that's the parallel of the quantitative blog post that makes it sound like, if you could only increase your final conversion from 2.34% to 2.684% you'd have a billion dollar company. And anytime I read an article like that I want to jump off the roof.

Eric: Same here. So, I think in some of your blog posts you alluded to getting…there're certain revenue checkpoints, so to speak, that you get like you might hit a snag so, you know, you get to one million or two million and maybe ten million as well. Can you kind of talk about those certain snags people might expect on their way up?

Jason :Yeah. I think there's maybe four. The first one generally can happen around half a million to a million revenue. It's typically…Let's step back for a minute, okay? Getting even just ten people to buy another web-service is impossible. Do you seriously need to bring…Are you seriously desperate to bring another web-service into your business? I mean, you know, maybe you'll play on your iPad at night and go the App Store or Google Play and find some cool new game. We have an enormous appetite for that, right? Or hopefully, maybe there's actually something new on Netflix I want to watch, so I'll spend time on Netflix.

But how many people go home late at night and search for business applications? There's a couple in CIOs offices of innovation officers. There are a handful. I know we can talk about that. But it's an extremely small number. So my point is, getting ten users, if you're using a cool photo share app, doesn't impress me. Getting ten customers is epic. We've done the impossible. And so kudos, it's just not enough revenue. And so then you've actually done the impossible and then can you build something that's real...that's actually real. You'll get a first check in when it's almost real. When you're almost there, at what I call initial traction, but you're only half way there.

That could be five hundred-thousand, eight hundred-thousand, a million in revenue, you're halfway there. What will happen is you'll be good at it. The founder, see the founder is visibly good at it and maybe…But you're so small, you don't have enough money, you don't have enough this, and they'll be maybe one kid that's helping you. That sort of works. But the engine isn't quite working, right? The numbers are there, but the "eh"…you can't feel the engine. And that's a tough time, at least because you don't know how it comes together, but you know it's working for you, but it's not repeatable. It's not truly repeatable. The numbers are growing but it's not repeatable.

The next kind of phase is…You have to blow through that. You just have to suck it up as pain at the gym because what'll happen is when you get twice as big, usually like two million ARR assuming your deal size is small, maybe it's a little bigger, maybe a little smaller, once you're there the engine…I guarantee the engine will work, whether that's five hundred customers, a thousand, a hundred depending on your ideal size.

That's enough that you'll have a real engine that you could, even if you're not ready for a VP of sales, we can chat about, at least you bring people into your organization. You can bring a great head of marketing in, a great head of customers' success. Two million is not enough to pay the salaries of your full team and hire all the people you want, but it's real, right? So, you get the one million and you're seeing it in the numbers, and you're seeing it in the logos, but it's not an engine.

Two million and you finally get the engine, okay? And then you're like, "Okay, it's working. I can actually spend a dollar and make more than a dollar." "I can actually bring Linda or Bob in off the street and they can actually close something." Then the key is, and here's the thing that I learned that I didn't know; you've got to get to two to ten as fast as possible. Let's just do simple math. If you get to two million and you have some growth to it, more than fifty percent, give it enough time you'll get to spend money. You'll get to scale. If it takes you ten years your dead though. Not only will competition kill you and market change will kill you, but you'll literally die of exhaustion.

If you can do it in one year, which is incredibly…borderline impossible, if you can do it in a year or even eighteen months no matter how much pain you suffer through it's all epic. Because once you're at ten million you are fat. You have extra people. You can have sixty people, eighty people. You can bring in ten or twenty sales guys. You can have and extra five or ten in extra engineers. I mean everybody has to have an extra engineer. Or once you get to ten-million you can actually have a whole extra team working on cool new stuff you can have.

So you've got to get…once you're at two, you've got to get to ten. And the real key is not to burn out, because if it takes you five years to get to ten-million you will be too tired and you will die. I don't care how young you are. The other night LeBron had his greatest game ever at age thirty, sixty something points and the night after that he said, "I've never been so tired." Okay? He missed the three-quarter to tie the game and it was one of his worst performances. You can't do that. You can't burn out, right? And burn out happens if you're poor.

Eric: Got it.

Jason: And it happens again, and again, and again, and again, and again. So, my real learning is; at the end of the day, it doesn't really matter how long it takes you to get to one to two million in revenue. It'd be great if it happened in a week, or six months, or a year, but the truth is, it doesn't matter. What matters is pushing as fast as you can from two to ten, right? So that you don't die of pure exhaustion.

Eric: Got it. Do you think this rule…This obviously applies to SASS, it sounds like, but do you think it applies to regular service type businesses or traditional businesses?

Jason: It applies to any business that has reasonable gross margins. Because if you have SASS like gross margins that are eighty percent or higher, what it means is that ten million, you can spend eight million of it on people, on help. If you have a low gross margin business, if it's to serve, this is business, it's forty percent margin, it's math doesn't work out. If it's e-commerce, where the real margins are like twenty percent, than you have to multiply by five. Instead of ten million it's got to be fifty million. So I…It doesn't really matter whether it's true B to B SASS, but for these sort of one to two to ten numbers they're kind of dependent on the margin contribution that you get at a…Really do we need six servers to run a ten million dollar business?

Eric: Right. Got it. So, one of the big things that I've always been wondering is, you guys have been, or you have been really on top of tracking all the numbers. You have all these cool graphs and things like that. When I was at a start-up as well, we weren't super good at tracking everything so I guess, how did you guys track things when you first started, maybe the first two years or so?

Jason: At the end of the day there's only two metrics that matter, or two and a half: Revenue growth and revenue; and how much cash I'm bleeding. And all these wonderful metrics that I talk about and or even words ad nauseam; customer life time value, customer acquisition, cost, revenue per lead, I mean, they're all great; but if you revenue is growing quickly and you're not losing more money that you can - none of that matters. So, those are the revenues we track, but then you want to understand the size because the real key is you go through.

The one most important phase you go through, maybe it happens when you hit initial traction, that two million number, maybe it's earlier later, is once you actually understand how your business works. And then what ends up happening is you have a core set of unit economics that are plausible.

My core customer I spend one dollar and I get two bucks out and that yields x percent of growth. Well, maybe you don't like that percent of growth. Maybe one dollar to get two dollars that yields 50% annual growth. Then your job as a founder is to add that extra incremental customer. That maybe it is a dollar to get a dollar, or even a dollar to get twenty cents, as long as your core unit economics works, that's okay.

So anyhow, I think that we can talk about all these different numbers and pipeline numbers, and things, I think the real numbers that matter are your growth rate, your burn rate, and then there's that core unit of economics, the core customer that probably costs almost nothing to get. You get it through word of mouth, or virality, or your brand, it's that positive. If that's positive and you're growing a hundred percent you have magic.

Eric: Got it.

Jason: You look at like, why is Bosch spending hundreds of millions of dollars a year on sales and marketing, does that looks stupid? It may look stupid, but you know what they're doing? Bosch…we'll see their exact numbers when they go public, but here's what they're doing. They're kind of organic…They are at a hundred million, more than a hundred million in revenue and they have, what I'll call, an organic growth rate, I don't mean, literally it's no work, but the engine's working, right? I'm going to say that's fifty percent for them now, sixty percent. They want to do eighty so they will spend a hundred million extra to go from sixty to eighty because the multiples justify. But it doesn't mean that even if the unit economics are all off from sixty to eighty that core sixty percent growth is good. You need good economics there, I guarantee it.

Eric: Got it. That totally makes sense. Yeah, and it's kind of scary how they're going head to head with Dropbox too. You actually had a post on the ten million ARR mark, and ARR means recurring revenue, or ARR's

Jason: ARR's, yes absolutely.

Eric: So why…You have a train that's going up in that blog list. Can you explain why ten million is so special?

Jason: Yes. What I learned…I wished I'd known this when I was an entrepreneur, okay. What I learned is; everything gets easier at ten. Everything. By the time you get to ten, at least in your industry, your little segment that you sell in, everyone's going to kind of refer to you. Just think about the math. Let's say you get to ten million right and your average customer is a thousand dollars or ten thousand dollars a year. How many customers do you have? A thousand. Ten thousand customers. And it's taking you a couple years to get there. And they've heard of you and they've taken you to their new job, and they've told your friends, and all of this, and you've been heard of. And so the leads just come in. Maybe not enough. It's all there.

So you have a brand. And let's not discount the value of a brand. The brand is epic. A brand is why we buy a VMW brand. Brand is why we buy an Apple product that we never even touched it. Brands matter. Brands are proxy for trust. So you can get a mini brand much earlier than that or…Some people in the industry in TAC or like One Segment, but by ten million in your run rate, in your best niche, everyone's heard of you. Okay? So at least you're going to get into every deal. You may not win every deal. You may lose that deal to your scrappier smaller competitor or your smarter…but at least you'll have a seat at every… at most deals, okay? So that's one. So, getting into every deal is key.

Two, here's the thing; ten million is fat. It's enough fat that you can hire…Let's say you're doing ten million and you grow eighty percent. That means you're going to add eight million in incremental revenue next year. Let's assume you have a high margin. That means I can spend six million dollars on people. How many engineers can you hire for six million dollars?

Eric: A ton.

Jason: Six million dollars. That's why everyone that has something in order to accelerate to ten million - you can do anything with six extra million dollars, right?

Eric: Yes.

Jason: So, you have the brand, you have the extra money. At ten million you have so many customers that the question is; how quickly do you grow? But you're out of the period where you can't be killed, right? Google can't kill you. Adobe can't kill you. You know… Salesforce can't kill you. Salesforce maybe can kill you when you're doing a million if they want to throw out all this space, but at ten million you are un-killable. You control your fate.

Eric: I like it. Cool. So you…There's a lot of talk…I mean, a lot of your blog posts touch upon customer success. Can you kind of explain why all the money is in customer success?

Jason: Yes. And this takes a while to figure out. So, you get going, in your first year, how many customers have you had for more than a year? Zero, right? And then even as you get into, like, the first half of your second year, you know, months twelve through eighteen, think about going back a year in time, your very first six months, how many customers did you get? Barely none.

So it takes people about two years to even understand what the heck's the point of investing in customer success? Because obviously, on the surface, it seems like a pointless waste of money in your first year, which it isn't, we'll talk about. And even by the end of the…It takes you in the second year to have enough customers that you could really see a quantitative impact from customer success.

But what I learned, and then we can take back a road, but what I learned about two years in, okay, was just what I said before; we got eighty percent of our growth, from our existing customers and that constitutes both viral and word of mouth and the brand, but also importantly up-sales, upgrades, buying more from you. And here's the secret sauce there. If your customer loves you they will buy more from you electively. If your customer hates you, but is forced to use your product anyway, right, like United Airlines. I will still fly United if it's the only reasonable way for me to get to New York, but I will never electively fly United. I will always electively fly Jet Blue or Urgent.

So, if you build this attitudinal royalty, okay where your customers love you, you will grow another twenty percent because they will buy more. And they will churn out at a much slower rate. Now, we did this math and I really feel like once I got myself real deeply in sales and had an engine going, I feel like we had the best sales team in the SASS in terms of efficiency.

Having said all that, with the best team once we hit four, five million in run rate we still could have grown literally eighty percent a year without any traditional sales just by making our customers happy. We still needed somebody to give…we still needed a sales team. But what I mean is, the sales team could've focused just on internally generated new revenue and still grow eighty percent.

That's the magic "A-ha!" And so, what you're seeing today is folks like me who learned it, especially for companies that have enough funding, but even if you don't, you're seeing them bring on a customer success or customer happiness, if you want to be serious, au courant officers like literally with the first ten customers. I was the customer success, the VP customer success in the beginning and then we had an intern who turned out to be great.

But you've got to just shower them with love for the first day. And then in year three, here's the tough part; it pays off and you're free because of the math we talked about. You've got to make that investment now in secure revenue so that all that love and all that word of mouth and virality, and upgrades, and up-sales, and all this stuff that I call second order revenue, because it comes out of it. Second order revenue are seeds you plant and you harvest in year three. This is why you look at all these SASS companies and they've been around for a long time, like seven or eight years, then you'll turn around, but then it just gets epic, once these seeds…they can really harvest?

Eric: So, when you say harvest are you saying they're actually up-selling? Is that what you're saying?

Jason: Up-sale, up…and they'll just want to buy more from you if they love you. Because the thing is, if you make it through four years your product will get better [laugh]. And so one way or another, whether it's them buying more licenses across the company, or them buying more modules, or editions, or whatever, basically what happens is, outside of the very small bottom of the market, every great running SaaS company has negative churn. Negative churn. And the typical…The number I set for our team and that we hit, was a hundred twenty percent.

Eric: Wow!

Jason: —Organic growth. So every year if I buy in the end of the year with a four million base, my customer success team was not just to keep that four million, but to grow that twenty percent in the next year. They had to turn that four million into 4.8 the next year, inclusive of churn. Including churn "Wow", right? And all the good teams, they can all achieve that. So, that's just a very narrow definition. That's not new leads. That's not virality. That's just literally taking the customers that love me and them wanting to buy thirty percent more gross basis, twenty percent on the net basis, it all will happen to anyone if you do it right. But it takes time.

Eric: Got it.

Jason: Because they've got to try the product, they've got to like the product, they've got to deploy the product, they've got to be comfortable with the product, and they've got to get more users on the product, and then they've got to get ready to buy more. The fastest that really can happen is like ten to twelve months.

Eric: I mean, if there's any testament to what Jason's saying here, like we…I have a service based business and we started implementing the client success managers or customer service, whatever you call it, it's starting to work. We're starting to get really good feedback from it, but again, like Jason says, it takes time. So, I think it does apply to almost every single business. It's just a no brainer, right?

Jason: I think what most, sort of B to B entrepreneurs are better at today than we were when we started, the best ones, is they're more patient. We were not patient, okay? We wanted to achieve…We gave ourselves, sort of…and this was in 2006 when the markets were hundreds of sizes…it took about ten months to get to two million.

Eric: Wow!

Jason: We weren't patient, right? And we didn't even know…Honestly I had to learn how to be patient.

Eric: I think most entrepreneurs aren't.

Jason: They're not patient. But to some extent we were impatient in the wrong ways. And so, today there're more examples to learn from. And so, customer success is all about patience. Because if you're giving yourself only ten months to make it, or twelve months to get to three million in revenue, there's no point in investing in customer success because it won't…it can't impact you. But the sma[rt]…the great entrepreneurs today are thinking in seven to ten years in their first performance.

Eric: Which is good. The long game is good. Do you…So, question for the audience, I think this would help them. Do client success or customer success people get commissions for the up-sales?

Jason: Yes. They should, right. But it's a comp[licated]…Everything about how you structure the organization in terms of ordering, how do you compensate customer success, it's not as clear cut as it is with sales. In fact, you know, I spoke at Tree Forest with the CO of Gainsight, which is a customer success software company, he was VP customer success at Marketo, long time experience in this industry, and he did twelve different org charts of pie structure, a customer success signature had a customer success report to the CO, or the head of sales, or the head of this, to market; there's no perfect answer unfortunately. Because here…

Let's step back for a minute. Let's talk about the challenge, let's talk about the solution. The challenge is you have to decide what behavior you want to present. There's one thing I knew I did not want in my company. I did not want used car salesmen in customer success. And there are a lot of these guys especially old school guys. Sometimes they're called account managers or whatever, these are guys the customer never heard of and on day 362 before the contract is up for renewal all of a sudden Marvin's there. "Marvin. My name's Marvin. I know we've never met, but your usage violates our terms of service and you're not using our crappy other product you ever heard of and I'd like you to buy another ten thousand dollars of my product this year." Right?

I just felt like, even though they have a good network, I could never work that company, and it would not create this attitudinal royalty. So I knew I didn't want that and a lot of companies do that. They do the hard sell on day 360 and more power to them. But, I don't think it's the number one approach. But if you have those dudes, what do you do? They're just sales people on your existing base and you just get give 'em a regular commission. The majority of the revenues is going to come from commission, or half, right? But that doesn't build the kind of relationships we're talking about. So, you know, the kind of ratio that I came up with was as follows is an eighty/twenty formula, so eighty percent base salary, twenty percent bonus target, and that was tied to that hundred and twenty percent number. We segmented it by group.

So, generally speaking if you took... Let's say you're a customer success manager and you manage to make a million in revenue. Your job is to get it to 2.4, I don't care how you get it done. But if you don't build good relationships with your customers, they will churn and you'll totally screw it up. Right? And if you sell too hard it won't work either. And it's not so much commission that your incentive is to do nothing about that. And that meant…what I chose was a total target for your whole base, which is what most people end up doing, and have the commission be material, you know, twenty percent, but not sales it. It seems to work. It seems to be what most people do.

And then to get into the nitty gritty, the question is, but what if they do something that's material or what if they just don't grow their base ten or twenty percent, but they add a million dollars in revenue? Turns out I think what the right answer is, is this, which a lot of companies do, is they basically say, if a deal is up to…If and upgrade is up to a certain size, say twenty percent of the initial growth, say twenty thousand dollar a year customer, if they buy up to twenty percent more, up to two thousand, the customer success just handles it. No sales persons involved.

There's no direct commission, okay? And as soon as it's above a number, it could be a hundred percent of the deal, it could be twenty, it could be whatever, then customer success brings in sales whether they want to or not. And they may not want to because of the relationship, but they have to. And so, later on when you get more sophisticated, I really like this idea of drawing this bright line between…below the minimal structural, you know, it stays with customer success, no discounts, no gains, it's just list prices, so it's not that much money. Right? "And I'll just help you George" right? And none of that sales money has to come back [laugh]. But when it's above a number and you actually need sales expertise, sales has to be involved.

Eric: Yup. Got it. Makes sense. And I think you had in one post, you talked about a certain percentage of revenues going into customer success. What percentage would that be? I think you said…When does this happen? Like three years in? When does this happen?

Jason: You mean, how much should you spend on it?

Eric: Yes, that is the question.

Jason: You know, it's going to depend, but roughly speaking you're going to want to spend ten to fifteen percent of your revenue protecting that revenue. And you can kind of back into that number in a sense that… There is a slightly misleading, but useful industry metric of one customer success manager, one human being can manage about two million in revenue. And just think about it.

Let's say you have a million dollar customer which is a big deal, but I just want one or two people, I want that guy or gal to only win that customer and one other right? Let's say your customer is under twenty thousand dollar price pump. Maybe this person could handle a hundred customers total. That means they can be drafted with all of them. They can visit most of them if they're local. Anyhow, if you think about it, two million is kind of right accept that's…You wanna do it in advance, on arrears. You don't want to get past two million because then the guy's… the person's too busy. So really it's probably more like a million to million and a half for customer success manager, okay?

Eric: Got it.

Jason: So, you know its advance on arrears. So let's imagine that it's a million and a half or a million two. Take the fully burned cost of that person. Let's say the fully burned cost is hundred thousand with benefits and cool macro-care and the brands, and maybe it's more, it's more, right? That alone is going to be close to ten percent of the business that they're protecting. And then you've got to give them money, and you've got to give them collateral, and time, and all this, so you it's got to be fifteen percent.

Eric: Got it.

Jason: So if you kind of budget that in, you know, since this is my most…my highest marking customer this is all the source of my second order revenue, let's spend at least fifteen percent, making sure we don't lose it. And you'll see that many older school companies, and many people that are into profit spend far less, like five percent. And that's the worst investment you're ever going to make.

Eric: Got it. Fifteen percent guys. Cool.

Jason: And maybe a lot more in the early days if you're well-funded. Maybe if you're well-funded in the beginning, it's the single best investment you can make.

Eric: Can you define well-funded for the audience?

Jason: Well companies that are raising lots of money, like eight or ten million dollars early, if you able to do that somehow…I would hire four customer success managers the next day. Shower your customers with love. Even at a million in revenue. We just talked about this metric of two million per customer, but it's really more like a million and a half on advance on arrears, but if I only had a million in revenue, that math says you need one person, right?

Eric: Yup.

Jason: If I had eight million in the bank I would hire four.

Eric: Okay.

Jason: So that they just get those first customers just…all their needs are met no matter what. And if you look at these well-funded companies, they may have a crazy number of sales people maybe too little, too few, there may not know what they're doing, but today they've got four customer success managers.

Eric: Wow!

Jason: Okay?

Eric: Yup. I don't think a lot of people realize that, but here you go. Cool. Let's switch gears a little bit. Let's talk about something that a lot people ask. I think you get asked this question a lot. When should you get a VP of sales and how do you get a good one?

Jason: Yes. So, the first ones easier to answer than the second one, although they're both more nuanced than any other position you're going to hire, okay? You should hire a great VP of engineering before you start quitting, because you can [laugh]. You should hire a great VP of marketing as soon as you can afford to get one. Even…Why not hire one at ten-thousand dollars a month in revenue. I hired my VP marketing, who's insanely great, now she's VP marketing and we were doing twenty-thousand dollars a month. And I didn't lose a dollar.

You can't go wrong. The VP of sales can go wrong. Forget about the fact this is the most expensive hire on paper you're ever going to make. You bring this person in before you have a repeatable process, it never works. It never works. And so we can talk about why, but the bottom line is; until you have, generally speaking, until you have at least two reps that are hitting a quota and you have an engine going, if you bring in a VP of sales it will be a train wreck nine times out of ten.

So you back into that when we talked about our stages before, if you bring in a VP of sales before even one to two million of referring revenue, it's a real VP of sales, you have a ninety percent growth rate. So what do you do? You kind of have two options, that if you have the skills you get two to three reps up to that level, get them great, get them going, then bring in the right person. That's the right way to do it. And that's what you should do. That's the right answer.

Having said that, what if you lack the skills? What if you are literally do not, no matter how much you like, none of the founders, and this is sad, but it does happen, none of the founding team has the skill to manage two to three folks selling. And to do that, step back, you have to sell first. Because if you can't close, and I closed all of our first hundred customers, if you can't do it yourself, how're you going teach a twenty-four year old kid how to do it? You can't.

So, you've got to close them and then you've got to teach two people how to close. And you're not possibly trained in sales, so there's a huge learning curve for you. So you've got to get that team of three which is you plus two. You have to do that. But what if you can't? Then you're in this hyper risky phase of hiring a VP of sales way too early and this is the person I call the evangelist, and they're not really a VP of sales. They are someone with experience, usually charismatic and very smart, they can talk the game, they can do what you should be doing, as a founder, but lack the skills to do. So hire that person as your second best., but just bear in mind that evangelist, that super charismatic person that you send out to attract that ten-thousand dollars, that person will never scale to be the guy that manages twenty reps, zero out of a hundred.

You may have to transition that person to a VP of Business Development. It doesn't mean you've got to get rid of them. It just means; that magical guy that can come in with no reps under them, nothing, and do this magical stuff, is not the same person that can hire your first ten reps successfully. Zero percent. So, just bear that in mind.

Eric: I think you alluded to this, that this is the individual contributor that's really good, but …

Jason: And there last title at their last job may have been VP of sales, but usually its evangelist when you really pick through it, "So how many of those eight guys that you manage since you hired?" "Well, I really didn't hire them. I inherited them." "Well what do you mean by sales rep?" "It was more sales operation than sales strategy. I really more worked with the eight reps." "Ah ha…" Right?

And that great VP of sales that hired eight, ten, or twenty reps and built a really efficient engine, that person's not going to come into your ten thousand a month revenue from scratch. That's not what they're good at and they don't want to do that. Sometimes, but they'll come under the ten-thousand dollar a month run rate company when they have ten million users.

Eric: Yup. That makes sense.

Jason: They'll come in like my VP sales did, the first sales manager at LinkedIn, when it was all self-service business, like there was no real sales, but there were a lot of users.

Eric: And they come in and they figure it out.

Jason: They figure it out, but at least there's the base. No great VP of sales is going to come in with no base, nothing to work with. What the great VP of sales do is they hire and they increase the revenue per lead. They don't figure out whether you have market products. That's how they do it. That's what I tell Judith.

Eric: Same thing with hiring a marketer too. You've got to have product market fit.

Jason: You do. You do. But the point is you hire this VP of sales too early, they're going to flame out. You higher the VP of marketing even…As long as you have a hundred customers, as long as you have time and money, it's going to be okay. As long as there's something there to work with, raw materials.

Eric: I agree with that. Cool. In terms of…Do you have any process for setting quota for people or like…How do you set quota for sales teams? I'll just put it that way.

Jason: Let's step back. There are certain industry norms that are very useful to reference and there's wide bands. But the rough industry norms…later when you're at scale, when you're past ten million in revenue, everything kind of…past a million everything's kind of the same. Given an ACD, at a given a guild size. Maybe even past three or four million everything's the same. Companies that sell twenty-thousand dollar a year products past three to four million, they all have the same type of sales structure, the same types of organizations. Companies that are a hundred thousand are the same and companies that are sort of low end or self-service, once they are all three to five to four, they all end up looking the same.

So later you get bracketed into the following quotas. The big enterprise guys get million dollar quotas, but maybe later it's two million, but one to two million's a huge variance, but, you know a million. What I call and some folks call run rate wraps, that sell four, five, six, eight-thousand dollar a year deals end up with quotas sort of in the four or five-hundred thousand dollar range. And typically guys that sell to the very small businesses end up with quotas that are sort of in the two to three-hundred thousand dollar range. Okay?

So that's where you're going to end up, And you're going to end up paying those guys a percentage of those numbers back as on target earning commission plus base. So that's where you're going to end up. The question's; how do you get there?

Eric: Yup.

Jason: Right? You're going to kind of end up with, in the very beginning, you have to pay people a living wage. If you bring your first two reps in and they can't eat and they do a good job, like, what's the point? So what I did in the beginning with our first two reps in the beginning, when we were getting going is; all I wanted in the first ninety days was for them just to cover their costs. That was their quota.

So you're initial quota is a hundred grand and then it scales up to those numbers, three hundred thousand or whatever it is. But it has…You want your reps, if they're doing a good job, you want…they have to be successful, they have to feel successful, so you have to engineer quotas and talk targets, that if they're good they can hit it and they can see it and if they don't, I mean I know people that have had success with impossible goals in the beginning, but I find that totally demoralizing.

Eric: Got it.

Jason: Or, let me put it differently. I wrote a post, like, your best rep you want driving an M6 convertible.

Eric: Yup.

Jason: In his first year, "We ought to wrap those twenty-four…"you know, once he was unleashed from an SVR into an individual wrap, you know in six months he had the Mercedes convertible, and then around month fourteen it was the new M6 convertible. That's what you want, right? That means your comp line's working. If everyone has an M6 convertible you have a problem.

Eric:Totally.

Jason:But after eighteen months no-one has a M6 convertible and they're all saying it's not about the money, it's about the journey, you're dead [laughter].

Eric: I like it.

Jason: Sales is about money, right? Sales from the start-up is about making money and enjoying making money. Sales in the big company is just about money. In a start-up it's about having a chance to make a lot of money and not having a jerk boss and having fun doing it. Being part of a great team. If you go into SASS start-ups, any start-up that are like ten million or above and growing well, and you meet with team, you'll see just this incredible energy. It's just wonderful and builds on itself.

Eric: Yup. I actually had a friend who did sales, it seems like, if you're going to hire sales people they're going to have really expensive taste so when you interview them you should ask them what their tastes are or, you know, what kind of car do they want to drive, right?

Jason: Yes.

Eric: I think you also said that too.

Jason: Yes. I like the ones with expensive taste. The one I really don't like is the guy that drives the six year old Mercedes E63. Okay? That man, six years ago he thought he could drive an AMG Mercedes, but now it's got a lot of dents and there's a lot like Big Gulp cups in the back and all that. I run from that guy.

Eric: Got it. Cool. Makes sense. So, actually backtracking a little bit. You said that in the first ninety days they should be able to cover their costs you said a hundred grand.

Jason: Yeah.

Eric: So, would that be net or gross?

Jason: Well, I mean, you know, later it should be inclusive of all costs. In the beginning when you're small, when you're a start-up, just try to make the math work.

Eric: Okay.

Jason: Define it in the most…Just make her successful. So don't play any games, like literally, if you don't have an engine, say all I want you to do in the first ninety days is close whatever, ten thousand dollars of new bookings, make it easy and then make it hard. When you have one or two successful people, you'll have an intuition there. But set the…make the bar achievable for that first person in the first ninety days.

Eric: Got it. A few more questions here. I think like three more. So, and this is funny; you actually alluded to paying them off…make sure you pay them a base and then give…giving mostly a base and then a commission. And this is something that Aaron Ross said which we will talk about in a second. So, yeah, actually just talk about it right now. Aaron Ross, former director of sales at Salesforce, I know you were working on a book with him right now…

Jason: Aaron and I know each other rally well.

Eric: Can you talk about what you guys are working on.

Jason: Aaron's mister predictable revenue, but it's sort of a sequel to what he's done in "Predictable Revenue"

Eric: Got it.

Jason: So, it should be good. It's going to tie into the themes that I have, which in some ways, are broader themes about recurring revenue. To tie in sort of with his next generation thesis and views, taking everything that he's learned very successfully and taking it to the next level on the sales side.

Eric: Got it. So to the audience "Predictable Revenue", that's a must read sales book if you're building an organization and I think the sequel is definitely a must read also. Also, Jason's blog as well. What's one must read book you recommend to entrepreneurs?

Jason: Oh goodness. Now you gave me the top question of the hour, right? I don't know. I tell you why. In all honesty, and Aaron is great, he's a perfect example, right? I should know that answer.

I struggled as an entrepreneur when I was building my SASS company getting to something, you know? In those years from the six till nine I couldn't find the book. So I tried to produce the content on Quora on SasStr to provide my guides, right? I wish I knew the perfect source, but I definitely would include Aaron in that top five to read group, right? I wish I had the other four and ask me in a year. I just try to contribute some of that content back because I couldn't find it.

Eric: Mmhmm.

Jason: I wish I had it because I would have read it. There's a lot of good company building style, right, and, you know, but there's only so many bibles on how to scale recurrent revenue.

Eric: You know I think the really interesting.

Jason: Tell me.

Eric: No, I agree with that because it's really hard, I mean before I read Aaron's book, and before I read your stuff there's really little information on how to build a sales organization. And a lot people are just like, "Oh, we don't need sales." And then there's this thought up there like, "Oh, we don't need marketing. We're just going to let it grow organically." which totally doesn't work like that for the most part. So, I think, yeah…

Jason: There's a lot of sales management stuff which is focused on one traffic post scale management theory. But when you're doing something, I really don't need to hear a lot sales management theory on the hundred million or one billion from the SVP of sales operations to the SAP. It just doesn't help me.

Eric: Totally makes sense. In terms of…What's a productivity hack that you use?

Jason: My top productivity hap, because I wrote about it, was for me, on the revenue side at least, was one that people thought was nutty, but now more people have adopted it, which was; creating a sales commission plan that totally aligned interest with me and the company's fund. What I did was…What I learned was…and you can find the exact plan at SasStr.com.

What I learned is that when I did this analysis, I wish there was the perfect [proof] back then, but what I learned at the end of the day most sales comp plans basically target twenty to twenty-five percent of a deal, up to thirty sometimes if it's at the very bottom market S and P, twenty to thirty percent, really twenty to twenty-five goes back out as bonuses and commissions.

So, I knew that was kind of the way that the way the world had worked out over time, that's a natural organic pattern, and then I knew this other thing that happened. When I had my first VP of sales, who almost ran the company to the ground, which was when we hemorrhaged cash. So, he came in took the two reps that I had, which were great, and would hire ten people and within a hundred and twenty days, our productivity had fallen fifty percent and we were running into the ground.

Eric: Wow!

Jason: And it wasn't that…I didn't know what to make of it of figure out, right? But I saw something which I really hated happening, which was when he had brought in a traditional sales comp plan from Salesforce, what I saw is, when you combine that with B minus reps, I had a bunch of people coming in the office selling almost nothing and living off their base. Okay? So they were'nt…So, the one thing I knew is I didn't want anybody to live off their base. I just wanted to…On the other hand I wanted the folks that killed it to make an insane amount of money. The other thing I hated, from the big company sales comp plan was what were decelerators. The idea that if you do too well…"Every year I'm going to raise your quota, dude, because you did so well." I'd get up and I didn't like that. I said, "Listen, if you make the company half a million this year and a million next year, I'm going to pay you twice next year as much if I can."

Eric: I like it.

Jason: I hated the idea of raising the bar on people that were killing it, right? Although I get why you have to do it in a large organization so I said, "Okay, how can I make…have no [tax], no decelarators, no game, no stupidity, and also not have the losers that I'm stuck with like living off their base salary? Because great folks will leave for their base, but the losers will…if they can make 80K a year, it's not that they did another great job, so while they spin in their cube or at their desk just trying to close anything.

So, anyhow, that's what I tried to accomplish. So, the plan that I came up with was basically this: you pay back your base before you make a dollar in commission, your fully burden cost. So, if your base is 60K annual, you've got to basically, and say that's 5K a month, right? You've got to bring in six or seven before…you don't make any money on those bookings.

But then you take a big chunk of what's beyond that. So, instead of taking ten percent or five percent of what's beyond that, I'm willing to figure out what the mathematical maximum that I can give them, and it's perhaps like twenty-two percent or something like that. And so that math, you know, if you at the end bring in a million dollars in bookings, you'll make a hundred twenty thousand, for somebody else is was twenty-five percent, they'd make a quarter million dollars. I need two million, that's half a million.  And so the folks that killed it made a lot of money.

Here's what I knew as a founder CO, if he brings in two million is there any way I can lose money in my company? Impossible. I know… I didn't even have to worry anymore about incen[tive]…so sales…here's the profound thing; sales went from a cost center to a profit center. And I didn't even need to look at anything. I didn't need to see the dumb reports or logging the sales, it didn't matter because I knew that those sales people were driving the revenue per lead up. That's all I cared about was revenue per lead. And I knew it was a credence. I knew, for every dollar that they wrote in, I was giving them less than a dollar. No matter what. And all my worries went out the door.

Eric: I like it. I'm going to have to re-read that.

Jason: I didn't care, right? But they knew every incremental dollar. They made more, and as a founder, and an equity holder I made more because I added value to the company. So, go get your M6 convertible. The dude is totally cool. Enjoy [cross talk]

Eric: This is in the book right?

Jason: I think Aaron's going to have it in there. When you're in a billion in revenue it doesn't work. It doesn't work for Adobe, but you're a fool if you bring in this sales force comp plan, and Salesforce may have improved it since then, I love Salesforce, but bringing that into your two million dollar company is a recipe for disaster.

Eric: Got it. So, Jason, thanks so much for doing this. A lot of insight here. I recommend people watch this, re-watch this, and then go Jason's blog, read everything. Read "Predictable Revenue" twice and you will be a sales master. So, Jason, thanks so much for doing this. We hope to have you on the show again, sometime soon.

Jason: Yeah, this was great. Perfect stuff.