Advanced Revenue Share Deal Questions

James Schramko knows enough about rev sharing deals that he's put out his own training. Listen in as he answers questions not covered in his course.

James Schramko

James Schramko here. Welcome back to SuperFastBusiness.com. This is Episode 842. Today, I'm going to talk about revenue share deals. This is a topic I'm absolutely fascinated with. A few years back, I was chatting to Jay Abraham, who I've had the great benefit of a number of telephone calls with. And I asked him, Jay, what advice would you have for your older self?

What James Abraham would have done

And he said, James, I would have done more revenue share deals. He said, the people who paid $25,000 to come to a weekend workshop, he was running these things in Hong Kong, he said, they would have been $25 million or $250,000 customers, you know, had he gone on a percentage deal or revenue share deal.

So anyway, I took that advice. He sent me over some stuff, I read through it. I then spoke to several other people who do revenue share deals. I have friends in the industry, from Dean Jackson to Ryan Levesque to Steve Ovens, and several others, and I got a hold of all their paperwork.

And I interviewed them, which is something that I advise anyone to do, even if you were to go and get a corner coffee shop, go and interview other corner coffee shops and ask them about their business. What have they learned? What advice would they have for someone else going into the business? What's the 80:20 or the 64:4 that you should know about?

And I asked these questions, and I got a hold of their paperwork, and I came up with what I thought would be the best way to move forward. I even was able to build in an exit strategy, which most people don't have, surprisingly. One of those people did have, and it was a clever idea. And when I mentioned it to Jay Abraham on our podcast, which I can link to in our show notes, he said that it was brilliant, a really good idea.

And then I set about doing revenue share deals for myself. So I've been doing these revenue share deals for three or four years. I have had about a dozen of them.

The few deals that didn't work

A couple of them didn't work, not many, only two. I've stopped two, or maybe that's three now. I've stopped three, only just now. And I've learned more about why they don't work, in the case they don't work.

And when I say they don't work, they weren't catastrophic. It just meant that I wasn't making enough return on my investment of time or energy to make it work. And in each of these cases, it had nothing to do with my own ability, skills or execution ideas. It was more to do with things that happened to my partners. And it was different things that happened in each case.

So I can go into more depth on that inside SuperFastBusiness member's area. But I just want to assure you that sometimes factors outside of your control might cause the deal not to work. But in any case, I will say this, the same things that cause the revenue share deal not to work would also have impacted a retainer deal.

So I didn't really have any major downside. It's not like I was missing out on a retainer. It's just that it didn't work. So in business, if you take more shots, like that great Wayne Gretzky quote, some of them will pay off. Now, the other end of the scale is the deals that worked well worked so well that I was able to stop taking regular SilverCircle coaching members, because my time was just worth so much more with a revenue share partner than it was with a straight-up coaching client, even at high rates.

So the top few revenue share deals, just like 80:20, pay significantly more than what regular coaching would be. But I also do significantly more. You hear from my partners all the time, I do grow their business, it works beautifully well. So I took the concepts and ideas. I had one of my students actually teach this topic at a SuperFastBusiness live event, and also we podcasted about it.

That was with Charley Valher, and he delivered a great presentation. I also did some training inside SuperFastBusiness membership, and then I put together that training as a separate product on SuperFastResults. And I make that product available for sale, and it's really just a showcase. It's a demonstration of the kind of trainings you can get inside SuperFastBusiness.

I think we sell it for $9 at the time of recording this, at SuperFastResults.com. And as a result of that, I do get some people ask questions. So what I want to address here is some questions I got recently from someone who went through that training. And I want to address it in this podcast because they're not covered in that training specifically. And it's sort of a sample or an example of you getting to see how I would personally privately coach someone who's going through this process.

So, I'm going to open up the document where the questions are. I'm going to read a couple of questions, and I'm going to answer them for you on this podcast. And I invite you, if you're interested in revenue share deals, what I'm talking about here, go to SuperFastResults.com and buy the revenue share training. If you are a member of SuperFastBusiness, you already have access to this training. If you are a member of SuperFastBusiness, you can ask questions in that forum and get further answers like the ones asked here.

A revenue share deal in reverse

So this person was referring to the reverse revenue share deal. Now, the reverse revenue share deal is where you own the asset, and you bring in an expert. So normally, a revenue share deal is when you're the expert, and you go to someone else's business, and they pay you a percentage of revenue to be the expert.

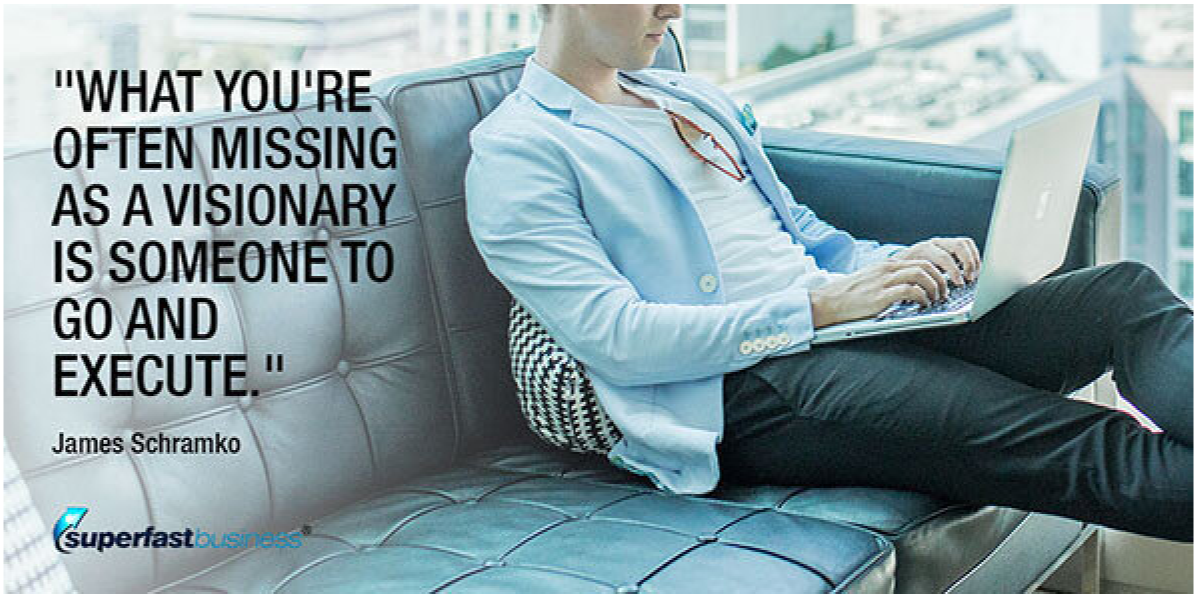
Now, I came up with the reverse revenue share deal where you own the asset, and you hire in an expert on a performance basis. So this person wants to do a revenue share deal, but a reverse revenue share deal, because they already own a business, and they want someone to actually drive it, run it, grow it, manage the team and allocate capital, essentially be a CEO or general manager. Am I suggesting that he offer a revenue share deal to that person, or pay them a set monthly retainer?

So the answer is yes, you could do that. You could definitely pay a set monthly retainer, that's a very standard operation to hire a general manager or CEO. What you'll find, the type of people who are general managers or CEOs are generally going to want some skin in the game from you, they're going to want some money, because usually they have a job, and usually they're already earning money.

So that means they're going to need some kind of base or retainer often to be able to do the job. Otherwise, they wouldn't be able to take the risk. If they're so good at what they do, and they want to take all the risks, then it's either going to be a side gig, or they probably already have their own business. So the candidate pool will probably be quite slim for this.

Where would you find someone like this? Probably from your own client base. Someone who's actually been through your program, who knows your business and has high competencies. I've helped a few of my SilverCircle clients get general managers or CEOs for their business. But in every case, they were on a fairly good base salary and a performance quotient.

Usually, you're going to be looking at paying around $100,000, or $120,000, probably no less than $80,000, and probably no more than $125,000 for a really good general manager of a proper seven-figure business with incentives. So it's probably going to be hard to get someone to do it on that basis. But there are other options for you.



The fractional integrator option

For example, you might consider a fractional integrator. Because I really think the business founder is still a good person to have the strategy and to grow the business. And what you're often missing as a visionary is someone to go and execute. So I've been helping someone. I've actually partnered with a fractional integrator, and he goes into businesses, and he just makes the trains run on time.

He says, Right, tell me about your railway. He finds out who all the people in the business are, he uses a system like ClickUp, and then he gets things happening. So the visionary, the owner, says what the vision is and what they want to happen, and then the integrator goes and operates with all of the people in the business and makes it happen.

And the best thing is, that's usually paid as a fixed fee, and it's usually thousands per month, and that's it. They don't have to take a revenue share deal. So that might be an option for you if you want to keep one foot in the door, and not have to give away revenue. Of course, some general managers or CEOs might come for equity, and that's a different type of deal altogether.

But it gets far more complicated, and you really have to know that you're in a great relationship with this person to go down that path. So in short, generally, a salary is actually probably the easiest way to go for that kind of role.

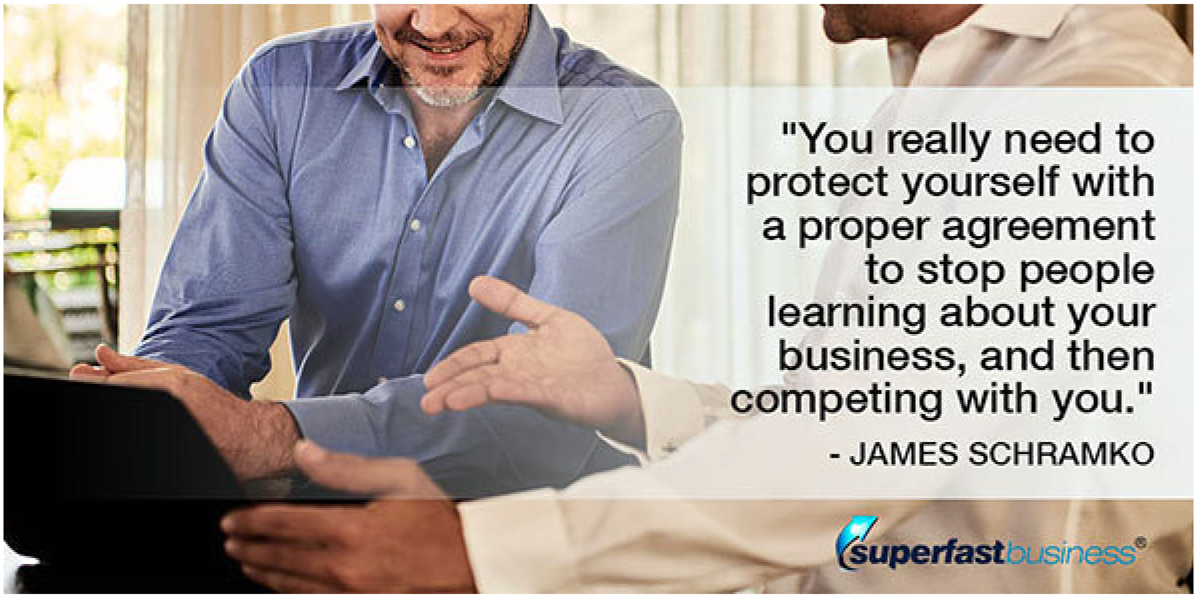
How big a share are we talking?

Now, the second part of that question was, if I was doing a reverse revenue share, would something like 10 percent of revenue above the current average be the way that I would pay? Or would it have to be higher because it's more day-to-day versus a simple advisory role? The answer is probably yes. In the case where I've done reverse revenue share deals, it's not uncommon to see something like a 35 percent stake, because they will be operation, they'll be the face of the business, they'll be doing things and you're going to be back.

So here's a simple allocation. Let's say you've got 100 percent as the revenue. Let's say you take a third of that to operate the business. If you're in an information marketing business, an agency or an information type business, there's a good chance you can have a reasonable profit margin in a business like that.

So let's say you allocate about 33 percent for the cost of running the business. Let's say you allocate 33 percent for your stake as the business owner and then you take 33 percent for the expert that's coming in to be the face of the business and run things. That could work, but if you have a business that doesn't make 30 percent profit, it's not going to work. So it might be less.

So a few factors here, is it a really high volume business where a small percentage would do the job like an ecommerce business? Or is it a super small business where they're going to be doing a lot of work? And then you'd have to put yourself in their shoes and think, why wouldn't they just do this themselves?



So you really, really, really need to protect yourself with a proper agreement here to stop them learning about your business, and then competing with you. And I call this the Western way. But this is a real trap. Whether they're on a salary or whether they're on a rev share, it's very common for someone to come in, learn the business and think, oh, I'll get a bigger piece of the pie if this was my business. And sometimes it's even worse, they take your customers, and they take your staff, so you must protect against that where possible.

Finding the proper candidate

Next step, if you're in my shoes, how would you identify a willing and appropriate person to fill that role? So I've kind of covered that is, I would look for existing graduates, customers, people in your network, referrals - start there before you go for strangers. And especially if you already have a team, look inside your team.

Even though it's not a great strategy, usually, to sell your business to your team, often, you might find someone in your team who's capable to take on an extra role. But as I said, I'd be probably looking at a fractional integrator before I go down this path.

Now, this person also met at least five other people who are doing a similar business model to his but in different markets. And they're generating revenues from $20,000 to $70,000. I'm assuming this is annual, by the way. And almost all recognize they're pretty good at doing the thing that they do, but not that good at running their business.

Okay, so this is a very typical scenario so far. They don't seem to know their margins, they've never run paid ads, they cringe at the thought of it. They don't comprehend much about funnels and pricing, they don't understand how much tax they're paying. They don't have email lists, they're just sending once a month. So basically, there's a lot that could be optimized.

So as entrepreneurs, we hear this, and we think, oh there's an opportunity. But I also hear this and I think, well, there is a nightmare, that is a nightmare. As a coach, you'd probably want them paying a retainer, if you're going to accept them at all, because I would say these are the most challenging type of clients, they have so many problems and challenges that it is literally a train wreck to fix.

And maybe they don't even want to be fixed. That's something I'd want to check first. If they were coming to you, and if they want fixing, then maybe there's an opportunity here for some kind of roll up or putting it together. So the question that was put to me is, do I feel this represents a great opportunity to go into a bunch of revenue share deals quickly? Or would I avoid these people because of their poor business acumen?

I think it could be a major mess. Trying to do that many deals all at once for your first revenue share with people who are disorganized and out of control would probably not be worth the effort. I would say for your first revenue share deal, pick one person, and pick someone who's very keen and enthusiastic, and who’s got all the ticks in the boxes.

Filtering the options

And I say this in my revenue share training, the best prospect for revenue share deal is one who you would probably find it a little bit hard to get. The ones that are too easy to get are not good ones. Because if you're a coach like me, you get people every day saying, Hey, will you coach me, and I'll just pay you out of results?

Great. But you'll notice one of my filters is, generally for SuperFastBusiness, I want someone to be making at least $10,000 per year online with the thing they want help with before we're a good fit. Because that part up until there is just so hard, it's like Mount Everest. Trying to get these people from 20,000 to 70,000 a year, up to 200,000 or 700,000 a year, there's a lot that's going to have to happen for that.

So they'd have to be extremely motivated, they'd have to be ready to surrender all control and let you run the show for that to work out. So I don't think it's a great opportunity. But I do think if they're that hopeless, you could just hire them. Hire them as experts. Go and start your own brand, do a reverse revenue share deal, and put all of them on a performance basis as a reverse revenue share deal and now you've got an opportunity.

Is there a monthly revenue figure that I would not get involved in? For example, would I start up with a revenue doing less than 20,000 a month or more than 100,000? I've done them from zero. I've done a few of my revenue share deals, in my portfolio, I started from zero. And that's where I saw someone with huge potential.

They asked me for help, I know exactly what their business model will look like, I know exactly who they can sell to, I know that I can help them massively. And I like them. And I've done it, and it worked great. They are fantastic.

Some of the ones that I didn't succeed with were already in progress. And generally, the way that works is you start where you're at, you take an average of where someone's at, maybe the average of the last six months, and you start there as your starting point. And then you go above that. So I would say, it doesn't really matter. There's more things that you would consider other than their revenue starting point.

Would I say my average deal is you taking 10 percent of the revenue above the business's average revenue of the average of the last six months? That's very common in the types of businesses I help. I help agencies and information marketers, and most of them are making 30 or 40 percent profit margin. So I'm usually earning half what the owner is making.

And, you know, they're going to get quite a lot if they sell the business as well. So they're happy. And I'm only getting paid on the amount over where they got to. They got as far as they could get to by themselves, or paying for help or whatever, and I take them past that. If I can't, I don't get paid, and if I can, I get a fraction.

So if I get 10 cents on the dollar, I think that's a good deal. The lowest deal that I would have is seven percent, the highest deal that I have is 20 percent. It would be uncommon to have something outside of that, unless you're dealing with a very high-volume business, then you might have a low percent.

Or if you had an ultra profitable business, and you really had to do a lot for it, you might get paid more than 20. But that's kind of the range for a straight-up revenue share deal. And as I mentioned before, with a reverse revenue share deal, you'll probably find that you'll have to pay more to the experts, because otherwise, they've got other options.

What about the contract?

May I see your contract template of your most common deal? Or could I direct him to a generic template? Oh, that is the big question. This is a big ask, right? You know why? Because I went out to the people I mentioned before. I went to four or five people. I went through, like, a phonebook, do you remember what they are, those thick old books back in the old day, for telephones?

I went through a lot of material to come up with my first draft. And then I went to a lawyer and I paid that lawyer thousands of dollars. And then each time I've used this and refined it, I've paid the lawyer again and again. I've spent tens of hours, I've spent at least $4,000 or $5,000 on this document. So it's a huge ask.

If you join SuperFastBusiness membership on the intensive level, or if you join on the standard program for a year, then I will give you a working document that I've used, which applies to Australian law, with the disclaimer, there's a couple of conditions. One is you must not sell it or present it as your own work.

Two, I'm not warranting or guaranteeing that it will work at all. It's up to you and your lawyer to discuss that. And three is, it's obviously only relevant for me under the Australian law. It may change depending on your jurisdiction. But it definitely gets you a long way down the track. And I've had my clients, I've got students in SilverCircle. I've mentored lots of revenue share deal people, and it's worked really, really well because I've done a lot of the homework on this.

So if you're an intensive member at SuperFastBusiness on the $599 per month program, or if you're a SuperFastBusiness standard member annually, then you can ask me for it, and I'll send it over to you in our private message.

How much communication is appropriate?

Do you schedule weekly, fortnightly, monthly hour-long Zoom calls for catch ups or simply communicate via WhatsApp or Slack during the week, or both? How much would you consider too much communication where it starts to feel like a job? And how much do partners consider not enough from you and start to feel you're being lazy and not pulling your weight?

I haven't had anyone say I'm lazy, not pulling my weight, because I am very consistent. I usually put them in a recurring reminder, I treat them exactly like SilverCircle members. The average SilverCircle member, I meet every two weeks for 30 minutes, or every three weeks for one hour. I have a weekly group call that is available for SilverCircle, SuperFastBusiness and partners every single week.

So they can come to a call every week. So they can never say, Oh, we're not seeing enough of you, because they could come to that. In theory, they could come to two calls a week, plus one every two weeks or one every three weeks depending on their routine. For my highest-level program partners, I'm meeting once a week, and we're having a business strategy or recording content.

So I do record a lot of content with partners. That's one way I can significantly help a partner, is to broadcast them into my network. So whatever works for you is the short answer. And a lot of the subtlety around this is what service you say you will provide. This is a very important point. And this is where I do the most help with people.

So they're the questions I had. I hope you've enjoyed this episode 842. This is about revenue share deals. If you're interested in it, go and get the revenue share training from SuperFastResults, it's $9. If you are a member of SuperFastBusiness, you have this training. And if you're an intensive member on $599 per month, or an annual member of the standard at the current rates, then ask me for a copy of this revenue share deal.

And I will help coach you through getting your own revenue share deals. And you'll see that this is an incredible business model. So good that I was able to turn off my high-level straight-up coaching because, A) I'm actually able to get results for people, which is one of the fundamental things that you have to be able to do, and B) I've put enough R&D into this to make sure that it works.

This is an example of a solo episode where I'm really digging deep into a specific reader question or customer question. If you want me to answer your question, please send them in to james@superfastbusiness.com. I look forward to catching you on a future episode.

Structure your own revenue share deals with James's help

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