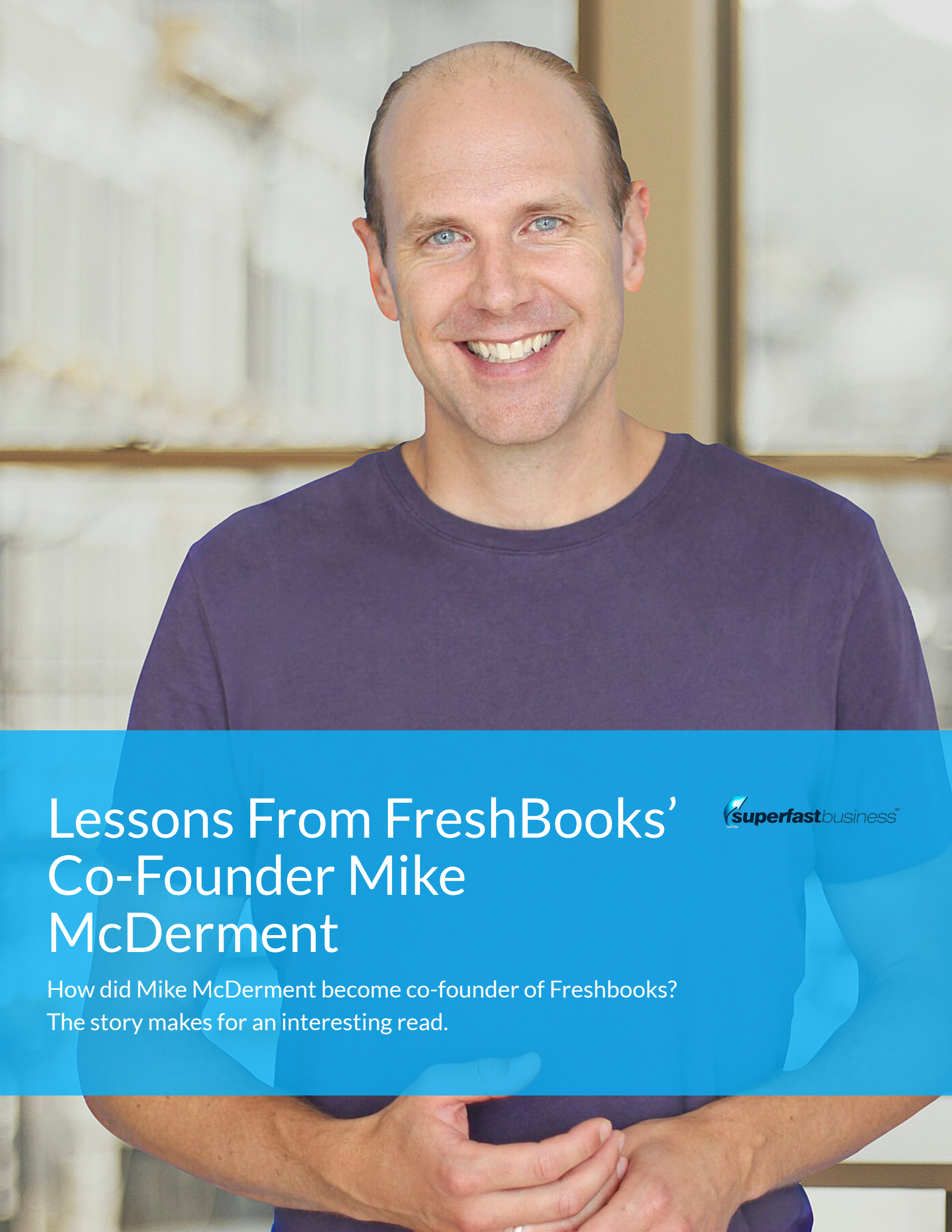

Lessons From FreshBooks' Co-Founder Mike McDerment

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How did Mike McDerment become co-founder of Freshbooks? The story makes for an interesting read.

Mike McDerment

James: James Schramko here. Welcome back to SuperfastBusiness.com. This is Episode 648. I'm having a chat to co-founder of FreshBooks, Mike McDerment. Welcome to the call.

Mike: Hey, thanks for having me, James.

The snail mail service

James: So you're up there in Toronto. I'm here in Sydney. And we're going to talk about business. And you've got quite the business story, one which I've been involved with, actually, as a customer, at some point, about 10 years ago. When I quit my job, I approached a couple of businesses and told them I was going to take over their online marketing. And they said, "Yes, that'd be great. When can you start?" And at the time, I was typing out manual invoices. And I realized that there was a solution out there where I could actually put in the customer's details, put them on a recurring monthly rebill. And amazingly, and this was the big thing, was that the company would actually print the invoice out and put it in an envelope and stick a stamp on it and send it to my customer, which when you're dealing with accountants, lawyers, car dealer-type customers, they're not so super digital, especially a decade ago. So that was a huge feature. And I used that product for many, many years until eventually, I didn't use that business model anymore. I no longer have that type of customer. After seven years, I stopped that business division. And now we're like exclusively digital, online, subscription-based memberships, etc. So thanks for providing such a great service.

Mike: Yeah, well, thanks for choosing us way back when. It's the snail mail, we call that inside the building, and it's funny, I hadn't heard anybody talk about it. And two people in the last two weeks, two old customers, have talked about that. So yeah, great to hear that was helpful.

James: Because as a solo operator back then, it was quite the chore. I think your genesis story was where you accidentally typed over an invoice to make a new one, and decided that you'll just go and solve this problem on a bigger scale, you know, for everyone else, after solving it for yourself.

For me, it just seemed ridiculous that I'd be opening up Word and typing over a new date and putting the new month on the piece of paper and then printing it out, and putting it in the envelope and then going to the post office. It just didn't make sense for two customers that I had at the time. Each customer was really valuable to me, they were $5,500 each per month on a recurring plan. And to have that little extra service to take care of it made such a difference. And I did notice a huge change in the way that they paid. Having that bill arrive in the post like clockwork was way more effective than sending it via email.

Solving others' problems by solving one's own

So that's how you started the company, by fixing your own problem?

Mike: Absolutely. And then realizing that I was saving over that invoice, and I was doing the same kind of work for others, funnily enough. But saving over that invoice and then started trying to build this company and realized I had a whole bunch of other problems I had to learn how to solve.

James: At that time, you were an agency of some kind.

Mike: Yeah, that's right. So I was a small design, development marketing agency, kind of started as one person, again, a lot like yourself, so helping people build online properties to really satisfy their customer acquisition needs. And, you know, back then, this was like, 2000, it was not a well-understood practice, like it is today. So there's sort of fairly pioneering in that. And then one day, I just saved over an invoice, sort of like 2003. So been at it for over a decade now. Saved over an invoice, got frustrated, said there's got to be a better way, and started my journey building a product company, which is a very different animal.

James: So you call it a product company. Would you classify yourself as the software as a service industry?

Mike: Absolutely. Before that name had really landed permanently. But yes, we're a SaaS business, doing recurring subscription revenue, you know, millions of people log into the platform every month, that kind of thing.

How to reduce churn

James: Right. I want to go straight for the jugular here. What can a recurring subscription business do to reduce churn?

Mike: Well, I guess there's the philosophical and the practical. So first of all, I think it also depends on what kind of customer base that you have and why they're buying. Right? So one interesting thing about us is we build a product that people need. And if they're going to cancel, it's probably because they've either gone out of business, or they've taken a job, or they fundamentally don't need our product now, versus something like Spotify, which is, Hey, I wanted it, I tried it out, I don't feel like paying nine bucks a month anymore. It's a discretionary purchase.

And so, you know, we've always focused on customer service as one thing to help people. Not so much saving people, but you know, people will get in touch with us, and if they have a really great experience, not only does it help them decide to stay with us, because they know they can get timely, competent help quickly, which, you know, ultimately, we serve entrepreneurs, self-employed, small business owners. And time is kind of the most valuable asset that they have. So it compels them to say, hey, well, that was a great experience. I'll keep using it. And it turns into word of mouth.

But there are a variety of ways to look at and think about customer retention, things like segmenting your customer base and moving beyond the average of what people need, and then kind of building things for those different segments and making sure your product marketing and messaging is getting to those target segments. So they feel like oh, there's a velocity here. This platform's evolving, it's for me. There's a lot of plays in that book.

Delivering targeted messaging

James: What type of messaging are you talking about? Things like weekly news, or something beyond that?

Mikes: Yeah. So running a software company, and maybe this is different, I know a lot of your customers offer informational products and things of that nature, but I'll speak to what I know. We build software to help people run their businesses and perform their accounting. So what FreshBooks is, and I probably should have started here, ridiculously easy-to-use invoicing and accounting software in the cloud. If you were running an information business, and you wanted to know, like, hey, am I actually making money? I'm generating revenue, but am I making money? Track your expenses, get basic reporting, be ready for tax time. That's what we do.

You know, through that lens, we have people who frequently log in to our software. And so we have the opportunity when you log in to say something like, Hey, this is new. And because we know how you use the software, we know how relevant that new thing is, or is not to you. And so if we improve, like, you know, invoicing and billing, which is something you used to use James, we made some changes, maybe things that will help you save time, it could be a usability improvement, but it could be some new capability. Maybe we improved upon a feature in our recurring invoicing and billing capabilities, we log in, we let you know.

And you know, for somebody else, they may not use that feature. So they may not want to know. And what I'm getting at is, once you start segmenting and understanding how people use or consume products, or maybe in an information world, it's, I'm going to sign up for this kind of information, I'm not going to sign up for that kind of information. You can use those cues to better target your messaging so it's more relevant to those people, and they feel velocity in either the rate and quality of development in your offering, or the depth of analysis that you're offering in your product because it's tailored to their specific interest.

James: Everything you said works just fine for information products. We're huge on segmenting, and relevance, of course, is important.

When you communicate too much

Do you find there's a point beyond which you might be able to over-communicate with a customer, that causes breakage in your service? Is there sort of a just right amount of communication? I think I went to a session where I heard Agora talking about this sort of no-go zone where they realized, by contacting a customer during a certain period, it kind of woke them up and caused unsubscribes.

Mike: Oh, yeah, absolutely. It's like stimulating a dormant customer can remind them that they're paying. I mean, that is a true thing, once your subscriber base is a certain size and you understand those things. So there's no question that's true. I'll give you another variation on that, is maybe less on the retention side, but it would be impacting… we serve, as part of our sort of networking platform, you know, there's accountants who we serve, and during tax time, they don't want to hear from us or anybody else. They're so focused on their clients. And so you can stimulate retention issue by trying to get in touch with people in their busiest season, if you don't understand that's their busiest season. So another look at the same kind of thing.

James: That's a really good tip, actually. We have a different tax timing in Australia, it's June and July, instead of calendar year. It's best to avoid my accountant around May or June. They're just slammed, trying to get these things out.

Small team, big team

And so what about building such a big team? How many people work in FreshBooks now?

Mike: We're a little shy of 300.

James: Three hundred people. So you would have had some growth pains from just you to having a few others? Have you picked up some themes or great techniques along the way that you think would be worth sharing? Because I know for a fact that someone listening to this podcast will have probably got a team of between one and two to a dozen people at the moment in their business. That's kind of an average team. Half a dozen people is a really common team size for the sort of business in our market space. What sort of things can we do to be a better leader and to make our team really super powerful?

Mike: Yeah, so first of all, I'll just say, those are wonderful times and wonderful team sizes, and I remember them fondly. I enjoy what I'm doing today, but you know, what I found is, there's just different things you need to do as a leader as you have these different team sizes. And so one of the things I loved about that stage is you get a lot of things for free. Now, what I mean by that is, as a leader, communication is generally much easier, faster and more effective when you're, I would say sub, like, I don't know, 20 people, but certainly sub 10. I'm making an assumption everyone's working in the same room. Obviously, today, probably a lot of these teams are remote.

James: They're almost all remote, like 98.9 percent. And I can definitely relate to what you're saying. I built my business up to a team of 65 people. And it had a different dynamic to what it has now with six, because I sold off two of my business divisions, which meant the team went with them. And that's so true what you said, it's like, the easiest business in the world to run with a small team. And it gets progressively more challenging, I think, because you stack on.

Mike: Yeah, it requires different things of you as a leader, like more time spent communicating. You know, basically what happens is individuals understand you less and less well, which requires more and more, you know, thoughtfulness and efficacy around communication. Because when you're a small team, it's like, oh, you see James today? Yeah. He didn't get any sleep last night. Oh, man, when he's like that, he always says this. You know, people cue into you much better, because they just fundamentally know you better. There's probably kind of different levels of trust.

You know, as a team grows, you need to think more methodically, like, Oh, not everybody reports to me anymore. You know, they report to a manager. So there's a degree of separation there. I may see them every day, but ultimately, you know, that person's kind of caring for them. So on and on, it kind of goes.

A rule of disclosure

Anyhow, for the team sizes that you all have, it's funny. I'm trying to think of what the best advice I could give at that time, and I guess it would just be like, to disclose, right? We have always had this tension at FreshBooks like, Hey, we don't tell anybody outside the building anything. But we do tell you folks pretty much everything. And that's served us really well over the years. So it's like, Hey, we have this secret that we all share inside. And it doesn't go outside. And it makes you feel part of something. But I also think it just speeds stuff up. And it avoids you from having to live a double life, which I don't encourage personally. I think it's better to just be consistent with everybody. And if you have a small team, it's also exciting to feel like you're part of something and growing something. As opposed to working for you, they're going to be working with you. I think that dynamic is much more compelling.

James: Yeah, that's really good. So on that, you don't disclose much publicly, things like revenue, etc. And there has been a trend certainly in some of the previous guests I've had, and especially in the software as a service industry, where people do these sort of journaling blogs, every nitty gritty detail within their business, down to the P&L. What are your thoughts or reasonings around not going down that path? And you know, do you have an opinion on the way they do that?

Mike: Well, I wish I could tell you they were born out of rationalism. But they weren't. So I'll give you the impetus for why I have been wired and why this business is wired in this way, and then we can talk about some of the other perspectives one might have.

You know, we didn't disclose information. Basically, I think it came from my mom – like, she wouldn't tell my dad what she had in her bank account. She was just like, No, that's mine, and they didn't, like, talk about stuff like that. But she always maintained this level of privacy, she'd never tell my siblings or I. She's in her 80s now, and we're trying to figure out what she had going on. She's starting to disclose. But the point is, that was kind of a model that I had shared with me. And I guess, you know, growing up at different times, different generations and different sensibilities around what's private and what's not. So my parents are a little older, and I got imbued with some of those things. And so when I'd go to the bank, try and get a line of credit, and they'd ask me for information about myself and my assets, which were basically none except like a really old Ford Taurus, I was offended. I was like, "What do you mean?" "You know, like, you're trying to borrow $40,000 or $50,000…" "So what? What's your point? This is my story. I'll tell you what school I went to, but like, It's none of your business how much cash I have, or don't have, as the case may be."

Casting a longer shadow

Anyhow, so that's a bit of who I am. So I can't say it was a rational thing. I brought that into the business and we just started sharing it. Now, I can give you good rational answers for you know, why this could be a good thing. People entrust us with their financial information. So I think the least we could do is demonstrate we can protect our own, and we'll protect yours. So that's a good one. But I've also come to find and always value stealth, right? I think, you know, in our earliest days, people thought we were perhaps even bigger than we were, and that was helpful for us whether they be competitive or otherwise, because we were able to sort of cast a bit of a longer shadow. And I think when you're small and getting started, that can be helpful. But almost more importantly than that, this notion that, hey, we can sort of keep a secret.

The benefits of “keeping secrets”

This is probably not obvious, but we actually decided we’d platform our software, and we built a secret company that was us, but we divorced it from ourselves so nobody knew. We built the new platform there, and then when we were ready, we revealed that fact to the world and brought the other one over. For about 18 months, hundreds of people kept that a secret, which is kind of a crazy thing when you think about it. And I don’t think we could have done that if we didn’t have this kind of baked into our DNA. So I think there’s a few things about quote, unquote, “keeping secrets” within your organization that can be helpful. I also think about product roadmaps and things like that.

You know, again, I think you can tell everybody what you’re going to do, and then try and live up to the expectations that they have for you. Or you can do things for people and tell them that you did them and let them have the surprise and delight of like, oh, I wasn’t expecting that. That’s great. All of these to me are, you know, intertwined to information disclosure – when you do it, why you do it, how you do it. And you know, I think done right, you can have a lot of surprise and delight, you can have a lot for customers, because they weren’t expecting something and they get something good; for a team that feels like they’re part of something, like, Hey, we have certain things that we keep confidential, that’s our stuff, I feel bought into that. A variety of other kinds of benefits in and around that.

James: I think you are spot on, that it's definitely a lot to do with generational. I think some of the people who grew up with a mobile phone in their hand as kids, the sort of Facebook generation, they sort of overshare. I don't know when they go, if they have to go and get a job later, the picture of them vomiting at some dance party may not be good for the researcher to find. I generally don't think people realize how bad oversharing can be for them. It's like, I came from the generation before this generation, and I still have a lot of old school values from my grandparents. It's interesting you picked up some habits from your mom. I would say the way that you're raised and the values you've been installed with, you know, like a computer program, unless you overwrite them, it's probably going to dictate how you do things later on in life to a large extent.

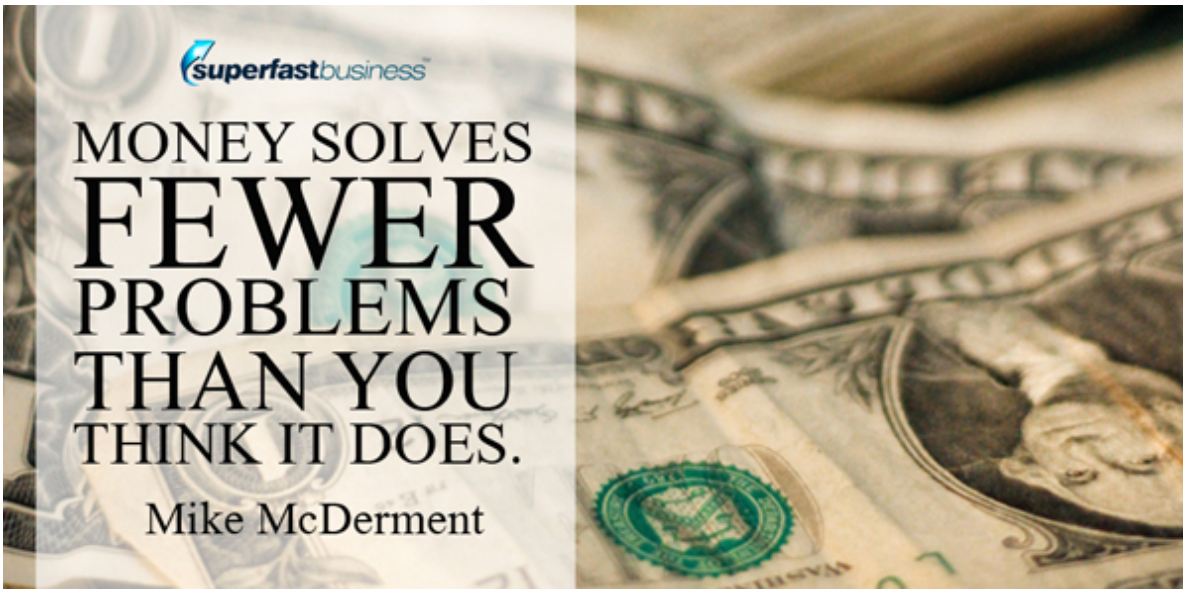
On the topic of fundraising

What about, switching topics here, fundraising? What's your stance on fundraising as a company who has done fundraising? And, you know, it's reached quite a large size now. I think I did see a stat where you had over 10 million users. So you probably needed some rocket fuel to get to that scale. What sort of lessons have you learned around fundraising?

Mike: You know, it's interesting. I guess I have a philosophy around this, that I encourage other people think about. We didn't raise funds for a long time. We got a lot of calls, we had a lot of interest, and we just said, No, no, no. And, you know, underneath that, if I'm being honest with myself, like I can give, again, a whole bunch of rationalizations, but I think it was because I knew that we hadn't de-risked things. And I wasn't comfortable with that. What I mean by that is like, we're a technology company, there's three or four really key risks. There's the market risk, like, hey, are people going to buy this stuff? There's the product risk, if they're going to buy it. Did you build something they're going to buy? And does it work technically? There's a team risk – is this group capable of going out after that opportunity?

Those are things that I kind of knew that I hadn't wrestled to the ground. And, you know, if you marry that with the notion that I knew that, basically, venture capitals and private equity folks, that they all knew stuff that I didn't know, and so they were way, kind of ahead of me. And I didn't like the notion of being that sort of far behind. Because there have been some terrible stories of how venture capitalists behaved in, you know, sort of Toronto, Canada and stuff like that, where I was from. Like, founders just getting completely screwed, and all these kinds of things. I think the world's changed quite a bit since those days, but it made me very leery, and I kind of really had my antenna up and wanted to be careful about things.

And so my goal was to de-risk, you know, product and market and team. And we did those things, and then it was like, Well, what the heck's holding you back? And it was really just capital. And so we raised actually a $30 million sort of first round of financing. So that's a little bit different.



But what I would say is, I would encourage people to think about it this way, is money solves fewer problems than you think it does. And if you're a startup or a growing company, like I see a lot of people fixating on Oh, if I could only have some money to go and do this thing… And the truth is, the hard problems are never solved by capital. You got to solve a bunch before it's probably time to bring on capital. And get to know your customer or your market, or whatever it is, so that you're set up to efficiently, effectively, predictably and repeatedly deploy that capital.

And so I just really encourage people to, you know, hey, if you're thinking about fundraising, or your business needs that, don't fixate on that. Like, what I encourage people to do is often just say, Great, are you going to raise money today? And sometimes the answer is like, No. Awesome, put a calendar thing in your computer for three months from now. Don't think any more about raising capital for three months, and then revisit the topic, because you will waste a lot of cycles, just thinking about it in the background, that could otherwise be put against effectively executing. And it's that execution that people are going to want to buy and invest in. And in three months, you can decide to change your mind. Or you can say, still not ready, and push it down the road again. But yeah, that's more like a startup mindset around it, but I think fundraising is not well understood by most people. It can be very helpful for a certain kind of business and is utterly inappropriate for most.

James: I love it. Such good advice. I've seen that cycle, where customers, they're just looking for that next few customers, because they've run out of cash. And they get the next customer, but the fundamental problem of why they don't have a strong solid marketing funnel in the first place, and then their capacity to deliver is not right, and having extra customers tip cash in only gets the wolf off their door until next week, and the week after, it's like this never ending vicious cycle. So that's a really good distinction that money doesn't solve everything, especially the hard problems.

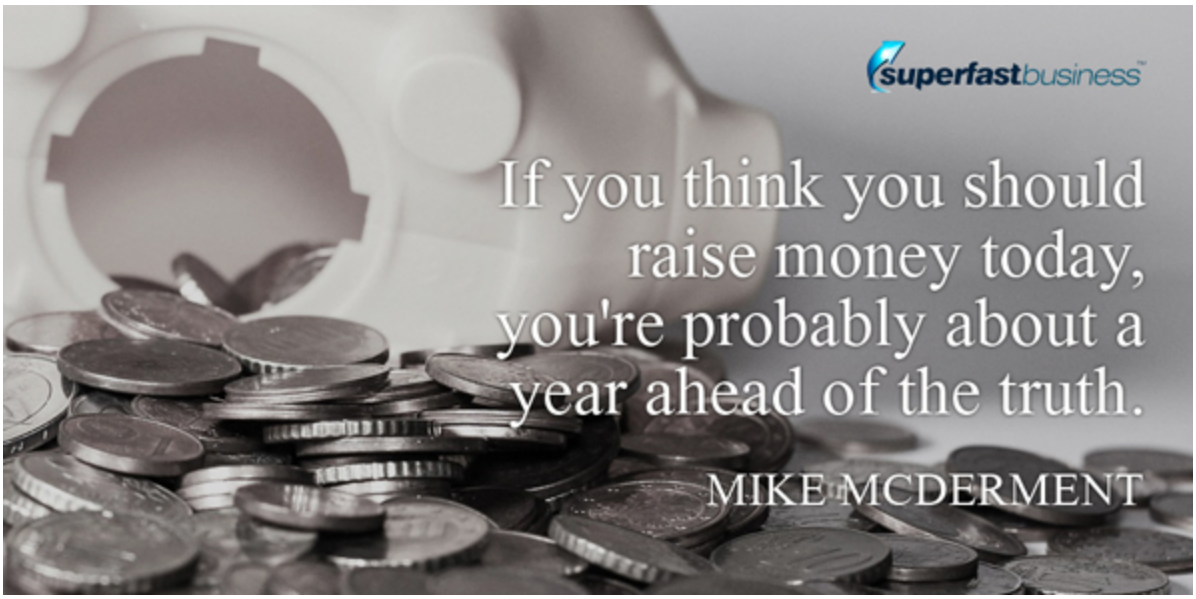
The length of a cycle

How long is a cycle? Just out of curiosity?

Mike: Sorry, how long is a cycle?

James: Yeah, you said that, you know, you'll keep talking about it each cycle?

Mike: Oh, well, I think that's up to you. What I tend to tell people – I'm sorry, maybe a little more context is, I find that entrepreneurs, especially first time entrepreneurs, or early stage entrepreneurs, often spend a lot of their time thinking about, you know, VCs and money and fundraising. And to be honest, it is a job, if you're going to go and raise money, like it'll be a job for a period of your life, unless you can hire somebody who can take care of that for you, like a CFO or something like that. But so it's a job, and so that job will take away from all the other jobs that you need to be doing when you're starting a company up.



And chances are, if you think you should raise money today, you're probably about a year ahead of the truth. And, you know, you should probably spend that year focused on furthering your efforts some way or another, and then thinking about raising it. So I just encourage people to put a placeholder in their calendar, and like, force themselves to have the discipline to not think about fundraising for like a quarter at a time, or maybe it's a month at a time, whatever you can handle, but to just free up your mind to focus on the building of your business.

James: I use the same technique. I call them triggers. We set triggers when we reach a certain milestone – X number of customers or X number of revenue – to do something, to invest in that next thing. Like, you know, like a trademark or business insurance, etc.

If you're going to take someone's money…

The other thing about venture capitalists is like, invariably, people are going to want their money back or a return. So it can increase a lot of pressure on you and diminish your total bounty of the company. So if you start watering it down, like, basically be careful. If you're going to take someone's money, it means there's some implied pressure.

Mike: I think there's a, I'll just go on there for a second. I would say you have, like, a moral obligation. That's the quid pro quo, they're not giving it to you as a gift. They want it back later with a return and I'd say, depending on what stage they're investing, it could be they're looking for 10 times back, right? They want you to push, like, if it's early stage investing, hey, they want you to try and return them 10 times, or have it go to zero. Right? Zero dollars. And I'll just say, like, that's a pretty wide range, that might not be what you really want as an owner or a founder. So think about whether you want venture.

And then at later stages, it might be, like, they want a three times return and you know, that kind of thing. It's different if you're a larger scale and that kind of thing. But yeah, I do think like you should, you know, I've seen it, and it's bothered the hell out of me, actually. A lot of entrepreneurs, lately, like times have been good for fundraising, and what have you, and I don't know if you have this attitude in Australia, but I think people would just take people's money and like, they don't feel like there's a responsibility to return it. And, you know, terms have gotten better for entrepreneurs. So it's like, you know, they're less draconian, and, you know, maybe there are fewer teeth in there, but I just say, hey, there's, I just think, an ethical or moral responsibility to certainly work towards doing that. Even if your investors are minority investors, your job is not to take their money and just do whatever the hell you want, it's to try and return it.

James: There's a massive cultural difference between that in North America versus Australia. In Australia, if you go bankrupt, you basically can't drive a car worth more than $10,000, you can't be a director of a company for seven years. It's basically a social stigma. In America, I've seen people advise, you know, just basically turn it off and start again. It's like, whatever. In fact, half the gurus in the information product space proudly wear bankruptcy as a qualifying badge to have you know, then subsequently gone on and found the way that actually works that they want to sell you. But it's never floated my boat. I can't think of anything worse and yeah, big cultural difference.

Mike's favorite tool

So I know we've used up our time allocation. I thought I want to talk about something dear to your heart on the way out here, if we could just finish up on something really analog. And that's the use of the journal. I know you're fond of a Moleskine journal. I'd love it if you could just spend a minute sharing why you love that, and maybe a tip or two on how to get the best value from it and then we'll wrap.

Mike: Is there like a camera in here, or what? You've done your homework. I don't know where that got dribbled out there. But here we go. I've got my Moleskine right next to me.

James: I reckon that's the most valuable secret in your world, right? You wouldn't want to part with that?

Mike: Well, there you go. It's actually people are asking, what's your favorite technology? I say, the ballpoint pen. Yeah, I use it every day. In fact, just for kicks, I'll tell you there's a stack of five of them here. Because I work through them, and they're piled up. I don't know why I have them all on my desk right now, but I do. Anyhow, yeah, I'm a big fan of, I think the productivity hack is not so much the Moleskine and what's in it as the active taking stuff out of your head, that you would otherwise have to remember, and putting it on a page. So you don't. And maybe this is a generational thing. I find I am able to be more present and record information on a Moleskine in a meeting, for example, than if I'm typing away on a computer and staring at a screen. So I like that dynamic. So hey, I can take notes, I can have them for future reference, I don't need to look at a screen. Because you know, God knows we get enough of that every day (or many of us do). So that's the thing for me. And then when my head is empty, I can be more present, I can focus, be more creative. And I don't have to worry about trying to remember something, because I can always go back and reference it.

James: That's great. I'm asking for a friend, actually, because I've been using journals for a while, and I've turned a client on to it recently. He's just so excited about it. I'm going to send him this podcast as a gift and say, here you go. If it works for Mike, I think it'll work for the rest of my audience. Thank you for that.

And thanks for generously sharing your ideas and concepts. And there's so much of course we could talk about, maybe we can reconvene at a future point, if you'll have me. I'd love to ask you about how you managed to work just 19 days one year in your business. And I'm sure there's other things that we could talk about. But I want to say thanks for sharing so generously, Mike.

Mike: Yeah, thanks for having me. And thanks for keeping on, on behalf of the listeners who know you've been at it for so long, thanks for doing that.

James: Awesome.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