Episode 24:

The Venture Capital Approach

A transcript of this episode.

Welcome to the Professional Website Investors podcast, the show where we talk about what it takes to successfully buy, operate, scale and sell a thriving eCommerce business. When it comes to doing business online, we believe that buying an existing website is far superior to building one from scratch. So if you're a career professional who is looking to become an eCommerce store owner listening to this show will give you the knowledge, tools and community support you need to be successful.

I'm your host Ryan Cowden and this week we're joined by Ian Bond from professionalwebsiteinvestors.com. In this episode of the Professional Website Investor podcast Ian and I discuss a new framework for online investing. If you're at all familiar with investing you've probably heard of the venture capital investment culture of Silicon Valley. Venture capital involves individuals and teams investing capital in startup businesses, assuming some risk up front in the hopes of a big payoff down the road. Some of the biggest brands you know of today started because venture capitalists invested in them when they were small startups operating out of garages, basements, and dorm rooms.

Today we consider if that startup approach could translate into website investing. Is it possible to approach websites as startups and nurture their growth the way a venture capitalist might? Our host, Ian Bond, thinks there's a clear path here and explains how the venture capital approach could lead to sound individuals decisions when it comes to buying eCommerce websites.

On this episode you'll hear whether you should invest in one website or spread your money around. One large site can be worth more than a few smaller websites, but that may not be the approach you wish to take. Next, Ian explains the venture capital model. This model highlights the importance of starting small to keep the site running and the investing money where it's needed to facilitate growth. Then we cover ways to translate the venture capital model to high ticket drop shipping sites. Ian shares his own story of making this transitions and some of the major lessons he's learned along the way. After that, we'll share the minimum amount you should invest in a website. It's hard to find a high ticket drop shipping website worth investing in below a certain threshold. So keep these dollar amounts in mind when you make your purchases.

Then we'll discuss what you should expect when you buy a small site. Smaller sites will probably entail you taking on a lot of the work yourself as they are usually run by one or two people. If you're looking to buy a small website, you're usually looking to buy yourself a website that you can run yourself. And finally we'll discuss the difference between buying and investing. Be prepared to buy the website upfront and then invest in areas of the website that will help it to grow.

If you're interested in incorporating the wisdom of the venture capital approach into your current system, then this is one episode you won't want to miss. There's a lot of actionable advice in this episode so grab something to write with because you're going to want to take notes. As always I'll be back on the other side to wrap up any loose ends. So without any further ado, here's my conversation with Ian Bond.

RYAN: All right, Ian, welcome back. It's great to see you again.

IAN: Ryan, good to be back. We got a great topic today.

RYAN: Yeah.

IAN: I'm excited to talk about this. This is my own creation, okay.

RYAN: Oh okay, great. Yeah so we're talking about the venture capital approach today and this is really going to fit with that whole investment framework that you've been rolling out for us.

IAN: Yeah.

RYAN: So real quick overview, how does this venture capital approach tie in to the investment framework you've been talking about?

IAN: Yeah so you know the first kind of going back in the series of things we've talked about, and I don't know what exact order we'll be that we'll publish, we put together a framework for investing with a number of variables to evaluate. Then we evaluated six online business models. Then we devoted a special episode to my favorite model, which is high ticket drop shipping if you're new to the podcast. Subsequently we talked to kind of what it's like to be an entrepreneur. And then identified what I consider to be the three biggest risks in a newer investment class or investing in a frontier market. Yeah the next question, and probably the most frequent question I get when I do strategy sessions with people is okay, you got me. I really want to do this, but how do I execute this? Do I buy one large site or do I … Or what do I do exactly?

RYAN: Right, right. Well that seems like a great place to start. Do you think someone should take all their money and sink it into one site? Or is there another approach you recommend?

IAN: Yeah so it's tricky because the … one large site is generally worth more than four or five smaller sites. And the reason for that is that if a site earns $1000 as opposed to a site that earns $10,000, the multiple that you'll pay on the monthly earnings is going to higher. We all only have 168 hours every week. People want to spend their time in the most fruitful way they can. Bigger sites trade more expensively, so why shouldn't I just buy one site with all my money?

I will tell you why, okay? So the venture capital approach to website investing as I call it comes from watching the folks in Silicon Valley, the VC investors in Silicon Valley, and how they manage funds when they raise their funds. In the last two weeks in my day job I've had three Silicon Valley based VC firms through my office. One actually here from the Middle East also. And they manage money in a very similar fashion, all of them. Generally, venture capital fund portfolios are constructed of kind of eight to 10 companies, generally they take smaller investment bites at least to begin with to limit their down site. But remember, as we all know, venture capital and website investing has an asymmetrical payoff so you can have incredibly large payoffs.

RYAN: Okay.

IAN: Third the investments are kind of phased in. So as the VCs learn more they put more money on the table. And then with regards to the way the portfolio ends up paying off you can expect some number of the companies that you buy, or the websites that you buy, to have an outsize payoff. And some of the you will either have made a wrong calculated bet, or the market may have moved against you and something would be unforeseen. But typically if you look at a venture capitalists fund returns they're going to be a couple of home runs, there might be a couple of write offs, and the other ones will do kind of middling performance. So those are some of the things we can talk about.

RYAN: Sure. So the venture capital model would really be building a portfolio? Is that kind of the what we're-

IAN: Yeah, so-

RYAN: Yeah.

IAN: You know venture capital is generally thought of as two guys in a garage.

RYAN: Yeah.

IAN: And I would say that what I would do and what I do do is I'm not buying something that is so nascent that it would be what I call seed capital, it would be more growth capital. And there's a very big distinction in that and there's a great book called Angel written by Jason Calacanis that talks about really the seed guys and what they do. But I look at myself as someone who looks and finds what looks like it's a proven business model, it's got some metrics which we can get into in another podcast that give you some comfort that it's sustainable. It doesn't have a long track record, yet, and it looks like it can scale, but it's not two guys in a garage.

RYAN: Right, right. Okay.

IAN: Originally, you know what we did is, and this was after over 50 deposits with one website broker alone and this is after having investing in frontier markets for over three dozen years. And back in the day, I mentioned how long in the last episode how long I've been investing, it started in the early 1980s. This is when the international investing was thought to be sexy. People just invested only in the Dow Jones Industrial Average. But originally we took what was a capital pool of about $250,000 that I was going to dedicate to investing and websites and I divided it by five to get what I thought might be a good average investing. Then I handicapped that number, which is $50,000, and I handicapped that by about 10,000 bucks because I suspected I needed to make some additional investment or I would misjudge something and I didn't want to be short of cash, didn't want to extend myself. And that's when I started to go shopping.

That was the original thinking back in the day. We're about well … I'm sure you're going to ask me how that all worked out, but that was the jumping off point.

RYAN: Okay, great. Yeah. Well let's connect those dots there. So how does that-

IAN: Okay.

RYAN: How does that approach specifically translate into high ticket drop shipping, which is where we're moving towards?

IAN: Sure.

RYAN: Yeah.

IAN: Yeah so okay I'll give you the history on what we did.

RYAN: Okay.

IAN: I'll give you the history on what we did and I'll update that because that's now four and a half years old. Let's see, 2000 and … it's three and a half years old.

RYAN: Okay.

IAN: So our first two purchases were 17,000 and $25,500 in October and November of 2015. And I'd say that since then we learned like two really big things that people can profit from hearing about. First I'd say that 25,000 to $35,000 is kind of the bare minimum to get that what I call proven business that gives you the sense that you've got something that's really worth investing in. Now we're taking our minimum up from $50,000 and going higher going back to that limited time in the day because we now kind of feel like we understand things and we actually want businesses that are more proven and we want to pay more money for them and we're willing to pay more money for them because we just have I think more confidence.

The second thing that we did back then was that we first bought, and then we did like the VCs do, we invested more. And I think that buying then investing is an excellent strategy because after you've owned something for awhile it becomes really obvious to you where you can put more money to add value to what you own. So get something that has got some scale and some stability and then buy it, get acclimated and figure out how you can invest and grow it. And you know you can monkey around with the numbers, but I think kind of the bare minimum these days is it's north of $25,000 for sure.

RYAN: Okay, so that's the bare minimum.

IAN: Yeah, yeah.

RYAN: I like hearing that when you want to make a change you don't necessarily have to go buy a different website. You can put some of that money back into the websites you already have and scale it up or add a different dimension to it.

IAN: Yeah, yeah. I mean absolutely there are going to be opportunities for you. When you're identifying a website one of the things you have to do is kind of have a checklist where you think there are opportunities and then figure them out. We have looked for places where we can add value, scale things, where potentially we can expand that niche, add more suppliers, invest more in content. All those types of things. So it's absolutely the case that if you plan from the get go you hopefully can add more money to it so that you can grow it much larger.

Now in our first site, the $17,000 one, there really wasn't much we could do. That was a big mistake and a big learning. On our second one, it's in a massively large niche and we probably … you could say that we bit off more than we can chew. It certainly seemed like it for a long time. Now three and a half years later it's worked out exceptionally well and we're starting to feel like we actually belong in this industry. You start to get comfortable.

RYAN: Sure.

IAN: But maybe we should talk about kind of what you get at the low end-

RYAN: Yeah.

IAN: You know if you're looking kind of at the minimum site or what you should look for, okay.

RYAN: Okay. Sure. Let's do that.

IAN: Yeah so, if you're going to spend as little as 25, or 30, or $35,000 … what do you get and what do you want to get? You want to get at least two years of operating history in general. Often times a website broker will say, "Well you know we're pricing this on the last six months earnings because we think that's more representative." You know that's a red flag. It hasn't operated at that level if they're using six months and not one year. Generally the rule of thumb is one year. A $25,000 site isn't likely to be earning much more than 1000 bucks a month. And this is big, you're going to be doing everything on that website because that seller is doing everything. And so this is a really early stage website and you wouldn't call this a real business yet. When the seller is jack of all trades, you're not talking about a business.

You're talking about a website. And to be clear people pay more for businesses than they do pay for jobs. Okay?

RYAN: Yeah.

IAN: And so most people are looking at website investing as being something that is semi passive, if not entirely passive. So if you're going to buy into something where you've got to do customer service, pay per click, upload products, customer … excuse me, supplier relations, you're going to be spending a fair amount of time doing it. And this is a big issue. So this is really the major reason that we raised our minimums and why we're going for bigger sites.

In addition to that if see a bigger site with a glaring opportunity. So let's say, and we see this all the time. The biggest glaring opportunity is that people have not focused on valuable SEO and that's something that you want to pounce on. If you see a big opportunity like that, don't fool around with a little site, go for a big one.

RYAN: Okay, okay. Interesting. So where do you find that that line is? That price line where it's no longer a website but it's a business. Is there a dollar figure?

IAN: Well I think it's when the earnings cover the functions that I just mentioned.

RYAN: Okay.

IAN: And then … Okay so that's customer service, that's pay per click. That is some allocation to have developers updating the site for you, most people won't put that in there. And then the other function that would be the last thing that I would outsource, I don't recommend anyone outsource, this would be the supplier relations. That's something that the owner should do.

RYAN: Okay.

IAN: Number one you keep your pulse on the business and you keep your pulse on what's going on in the industry. But number two, they're your gold and you want to maintain those relations.

RYAN: Okay.

IAN: But when you see a website well all of those things are accounted for and the monthly number is X and you're paying a multiple of X, that's when you've got … that's when you've got business economics as opposed to the economics of just buying a website, buying a job.

RYAN: Okay. Yeah. Great. You made this distinction a couple of minutes ago about buying and then investing.

IAN: Yeah.

RYAN: And I was wondering if you could explain a little bit about the difference there?

IAN: Yeah so going back to what we said that a good venture capitalist does.

RYAN: Yeah.

IAN: What happens is they seed smaller startups that raise seed money first and they have to hit milestones. And as the venture capitalist sees them hit milestones and everything proves to be economic, their model works, they raise another round of financing. This is essentially what we're trying to replicate by this VC strategy that we're employing. You know you buy it with kind of that seed capital and then you operate and it seems like it's going okay and you figure out where you can make more money, and you throw gas on the fire. This is kind of what I would call a toe hold strategy in investing. You add the cash where you think that you're able to get a big return.

As I just mentioned the one that seems to be the biggest opportunity that we're seeing right now is people, especially in the smaller sites, just not focused on SEO-related content. An area that we've been very successful is adding additional suppliers where you can broaden your product catalog. We've talked on this podcast on the systems and processes we employ and the fact that we use virtual assistants. Those would be three of the big things that I would include in buying and then investing.

RYAN: Okay.

IAN: It could be any number of smaller things, but those would be the big ones that I would say that that we would look at. And it all depends on the site. It's exciting. It won't become incredibly obvious to you until you buy the site in some instance. In some instances after you've looked at a lot of sites it'll just jump out at you.

RYANL Okay. Okay. So you buy the website first and then you figure out where to invest in the website, how to build it up.

IAN: Yeah, yeah. So you know you essentially would buy to invest. You kind of add to a winning bet and you exploit the opportunities you see while you've kind of limited your initial downside. If that makes sense. That's what a venture capitalist is trying to do and that's what we were trying to do when we began. I think it's a smart thing for people … the way smart people think. I do know people that have taken one big swing at things and I haven't heard any horror stories, but I'm scared for them.

RYAN: Yeah, right.

IAN: You know there's just so many things in the world of website investing to be concerned about. Google changes things. Competitors change things. Amazon does things. You can't … It's like investing in the stock markets globally. One of the reasons I love being a wealth manager in my day job is that every morning you wake up and the world is a different place and it gives you an opportunity to solve for what those opportunities are. But when you have a lot of money on the line, Ryan, you know you may want to be thinking about your initial downside first and saving some money for a rainy day as opposed to putting it all out there on black or red right away.

RYAN: Okay, okay. Great, great. Well, Ian, this was great. Thanks for laying out the venture capital approach for us. Is there anything you want to say just to kind of wrap this up for us?

IAN: I think the venture capital approach to website investing, I'll trademark that so, you know that's …

RYAN: Okay.

IAN: Love to have anybody else's comments on it.

RYAN: Sure.

IAN: But I think it's a valuable way to start and I'm not saying that you should do four or five websites like this to start with, certainly don't do eight or 10. But I do think it's a good way to think about website investing. Particularly think about how to limit your downside on the get go and then literally every time you look at an opportunity figure out if you can identify the ways where you can buy then invest should things go the right way.

RYAN: Okay.

IAN: And if you have those two disciplines in mind I think you're going to be way ahead of the crowd. You'll have your downside limited with a great deal of upside. So yeah, that's it.

RYAN: Okay, great. Ian, this was great. We'll see you next week.

IAN: All right, Ryan.

RYAN: All right, bye.

All right folks there you have it. That wraps up my conversation with Ian Bond of Professional Website Investors. He shared a ton of valuable insights and advice today on the venture capital approach to online investing. We also shared some tools and resources which will all be linked up in the show notes at professionalwesbsiteinvestors.com. I hope you enjoyed our conversation. Please consider subscribing, sharing with a friend, or leaving us a review in your favorite podcast directory. Until next time, best of luck in all that you do and we look forward to seeing you on the next episode of the Professional Website Investor podcast.

BUY & SCALE
E-COMMERCE SITES
INTO SEMI-PASSIVE INCOME