ZERO TO SOLD

HOW TO START, RUN, AND SELL A BOOTSTRAPPED BUSINESS — A SAMPLE

ARVID KAHL

This is a promotional sample of the book *Zero to Sold: How to Start, Run, and Sell a Bootstrapped Business* by Arvid Kahl

THE FEEDBACKPANDA STORY

I WROTE Zero to Sold because I've been through starting, growing, and selling a bootstrapped business before. Within two years, I co-founded, ran, grew, and finally sold a Software-as-a-Service business called FeedbackPanda, a productivity tool for Online English teachers.

Selling this SaaS was an overnight success many years in the making. FeedbackPanda wasn't my first rodeo. I've been involved in many internet businesses before, and I've had my fair share of failures. I was part of businesses where we never finished building the product. I co-founded startups that fizzled out because we didn't know how to market our service. I've been involved in companies that didn't find a way to monetize their popular products, only to pivot to something completely different after many years of trying to make it work.

I will share my experiences from both FeedbackPanda and the not-so-successful startups of my past in this book, as I believe that you can learn the most at the intersection of experience and reflection. So I will provide you with both.

Let's start with the business that changed my life. Let's take a look at

FeedbackPanda, a service born out of necessity. It was a product that solved one critical problem for a well-defined audience, allowing me to experience and learn the things that I have compiled into this book.

FeedbackPanda was a collaborative effort between me and my girlfriend, Danielle Simpson, who was herself an Online English teacher at the time. We bootstrapped the business from day one, and when we sold it for a life-changing amount of money, the Monthly Recurring Revenue (MRR) of FeedbackPanda had just reached $55.000.

Within two years, we had built a niche service from a proof-of-concept into a thriving business that was attractive enough for a Private Equity firm to take it off our hands.

So, where did this all start?

It started with a leg injury. In early 2017, Danielle suffered an injury that meant she couldn't leave the house for a while. For a trained Opera singer like her, that made regular work impossible. You can't invite your audience into your living room for a concert.

So Danielle looked for work she could do from home, and she found something interesting. A wave of Chinese companies had emerged that recruited native English speakers to teach English as a second language to Chinese students. She tried it out and was hooked immediately: it was a fun job, it could be done using just a laptop, and the pay was alright.

Shortly after, she found that there were several large online communities of teachers who taught for various Chinese companies. Danielle joined those Facebook groups and forums and started hanging out with her virtual colleagues that numbered in the thousands at that point.

A few weeks into teaching on a full-time schedule, she noticed things that started as nuisances but quickly became painful problems. The teaching part of her job was great and fun, but certain formalities took way too much time.

The most noticeable problem was student feedback. After every 25-minute lesson, the teacher would have to write a few paragraphs of a lesson report that was supposed to inform the parents of what their child had learned, how well they learned it, and what they could practice at home. Having only five minutes between lessons to take care of this and everything else (ranging from grabbing a coffee to using the restroom), Danielle would defer this work until after she was done teaching for the day. It couldn't be avoided, as the Chinese companies would not pay teachers for their teaching work unless the feedback was provided as well.

When Danielle started teaching 10-hour days, the added feedback time would often amount to almost two hours of unpaid overtime. That meant two hours less for spending time with me, meeting friends, or reading a good book.

So she did what everyone would do: she developed a system, using Excel sheets and Word documents to track information about what her students learned, how they did, and what to suggest to their parents. She started using text templates for the content of the lesson and the preparation hints, as the Chinese schools defined the curriculum, and it would be the same for every student.

We found out that many other teachers did the same when they started talking about their self-built solutions in their online communities. Teachers began to share their templates through Google sheets. It was clear that this was a shared problem in a very tight-knit community.

One day, Danielle and I talked about the painful experience of student feedback, and how her system, even though it helped, was clunky and overwhelming. I looked into it, and it seemed quite possible to build a web-based application that would do this work faster and more reliably.

We also saw that this would be a great business opportunity. There was a sizeable market with an apparent, shared, and critical problem.

The problem was solvable, but no-one had yet built anything to make it noticeably easier. So we decided to build a validation prototype, see if it had a meaningful impact on Danielle's day-to-day workflow.

It took me a week or two to build the system. When Danielle finally started using it, it was clear as day: she transferred her loosely structured Excel and Word files into the system, and the automation kicked in immediately.

Instead of two hours of extra work a day, it would take her less than ten minutes altogether.

We knew we were onto something big from that very moment.

I had built the software with potentially turning it into a SaaS in mind. It had an authentication system built on Auth0 that would allow users to log in using their Facebook accounts, after all, that's where we knew they hung out. It had a rudimentary subscription system build on Stripe that allowed us to charge from day one.

So we released it to the public, built a landing page, and waited. Nothing happened. One or two people signed up for the free trial, but there was not much else. We hadn't done any marketing, and we hadn't made any sales. The service just sat there, idling.

And then, one day, everything changed. In a comment to a Facebook post about how teachers dealt with feedback, Danielle dropped the link to our product with an explanation of how she used it. Teachers started to respond, asking for more details, checked out the application, and came back to share their newly found discovery on Facebook.

Our growth had been almost entirely organic since that day. This one comment released an avalanche of word-of-mouth marketing that fuelled the growth of our business from its first couple of users to thousands of customers a few months later. It was surreal, but we had tapped into a highly active tribe. Once we understood that, we didn't need to do much when it came to marketing our product: our users would do most of that for us.

Signups surged on that day, and there has not been a day without at least a few dozen new subscriptions ever since. Online teaching influencers discovered the product, talked about it through their channels, put links on their blogs, and our landing page started to receive more and more visitors.

Danielle was at the helm of product and design, while I managed the technical and infrastructural parts of the business. We shared most other jobs, particularly Customer Service. Over time, we automated the company as much as we could. We documented our internal processes so we could easily outsource or take over each other's activities. We built the business as if we wanted to eventually sell it, even though that was never our goal. We didn't set any goals at all; we just wanted to help teachers do their job better and have that pay our bills.

We had noticed that teachers loved to share, so we added a collaboration system where they could help each other out by sharing their templates. All of a sudden, we had a product that developed a strong network effect overnight.

And that made the business grow beyond our wildest expectations. Every day, new teachers would sign up, and since we provided a service that solved their problems well, we had incredibly high retention and conversion rates.

For many of our customers, teaching from home was a side hustle. Using our product enabled many of them to turn this into a full-time source of income. We priced our service to be affordable and easily justified. We even increased our prices by 50% a year into running the business, and it nevertheless continued growing.

So we coasted along, adding new customers every day, building features and making the service more reliable, and integrating deeper and deeper into the web-based teaching software our customers were using. Everything looked and felt awesome.

And then, things started to become stressful. The customer service load increased with more and more new teachers signing up. Maintaining integrations took time out of my feature budget, as the boom of online education in China meant a proliferation of online teaching companies that we needed to support. I had made a few questionable technical decisions that came back to bite me in the shape of unexpected downtime. I developed severe anxieties that took me a lot of willpower to work through. The more people I felt responsible for, the more it pained me when something went wrong.

That's when I learned the true nature of entrepreneurial life. It is fun, but it is also painful at times. It is full of responsibilities, real or imagined, and it can bring great joy as well as significant pain. We never hired an employee throughout the lifetime of the business, and while we talked about it often, we never got to it. FeedbackPanda was just Danielle and me.

So when we started receiving the first acquisition offers, we began to consider selling the business seriously. We had never talked about this before, as we were quite happy to run the business as our full-time occupation. But more and more reasons to sell popped into our conversations, so that one day, when we got a particularly exciting offer, we decided to go for it.

We sold FeedbackPanda in mid-2019, just under two years after founding the company. It was an exciting and scary thing to do, and this book is the result. Having always been an avid reader and an admirer of the bootstrapped founder and indie hacker community, I write this in the hope that it will encourage founders and founders-to-be to start, run, and sell their own bootstrapped businesses.

I learned so much during the time from start to exit, from zero to sold. Now it's time to share the lessons and experiences of that journey.

Let's get started.

I

THE FOUR STAGES OF A BOOTSTRAPPED BUSINESS

The following introduction and the four chapters right after that will give you a good overview of the topics that are covered by *Zero to Sold*. The final version of the book will go into great detail for each of these stages, what challenges await you, how we tackled those issues during running FeedbackPanda, what we learned, how we succeeded, and how we failed.

And we failed a lot.

You will find a lot of themes introduced by the introductions to every stage. All these themes will be covered in chapters of their own.

Every stage has a whole section of the book devoted to it, going into great detail about each kind of problem that might come up, big or small.

I have run into these issues multiple times in over a decade of founding businesses and trying to get them off the ground. Some you will already be aware of, and others might sound unimportant.

I guarantee that no matter where you are on this journey, you will find insights and concepts that will make your own bootstrapped founder adventure less stressful and more likely to succeed.

THE FOUR STAGES OF A BOOTSTRAPPED BUSINESS IN A NUTSHELL

Every successful bootstrapped business goes through four distinct phases: **Preparation**, **Survival**, **Stability**, and **Growth**, separated by revenue and profit levels. Every stage introduces new problems and situations to deal with. I'll guide you through each phase in detail, describing what will happen to the business, the product, the founder, and the customers throughout the entrepreneurial journey.

In the **Preparation** stage, the focus will be on finding an audience, their biggest problem, and a solution that solves that problem in a way to make people pay for it. You will find out how to price your product initially and start selling.

In the **Survival** stage, the focus will be on finding a repeatable way to make money. You will learn how to work on the product, listen to your early customers, and start building out processes and automation to stay on top of your business.

In the **Stability** stage, you have found your way to generate revenue. At that point, you will look into offering a stable, mature product, hire people to help you run the business, and build long-lasting relationships with your customers.

In the **Growth** stage, you will find yourself at a crossroads: should you keep running the company, or do you want to sell it? You will discover strategies and step-by-step guidelines that will allow you to do either, as you will learn how to remove yourself from the business.

Finally, you will learn about other options beyond bootstrapping, including Venture Capital, bootstrapper-friendly funding options, and traditional sources of capital. You will find further resources and information about the topics I didn't go into much detail at the end of the book.

Let's get started.

THE PREPARATION STAGE AND YOU

Every business starts in your imagination. To some, it's an idea of solving a problem in a new way. To others, it's the dream of managing a company from a beach somewhere. Whatever the initial spark is, there is a long way between that first fragment of a plan to a sustainable business that's humming along nicely.

First, you will turn your idea into a product you can sell. Then, you will create a business: a system that allows you to sell that product over and over again.

This stage ends when you begin selling your product to your audience. To get there, you will need to reach the following five step goals:

1. Find your niche audience
2. Find and validate their critical problem
3. Invent and validate a solution to their problem
4. Build a product to implement that solution
5. Build a business that can repeatedly sell that product to your audience

Your revenue will be at zero or even negative, as you have pre-sales expenses. That means that this may be the most expensive phase for a bootstrapped founder, as there is no way to generate earnings from a business that does not yet sell a product. However, operational expenses will be low as you will likely be able to coast along using the free tiers of the services required to build and deploy an initial prototype of your product. Mostly, this phase will cost you time and focus.

THE SURVIVAL STAGE AND YOU

RELEASING a product for the first time is like jumping into a lake: the water might be too cold, and you don't know what to expect. But once you've jumped, you'll get used to the temperate quickly, and you'll be having a great time swimming around.

Usually, the founders launch their product way too late. They tinker around for months and months, trying to get things perfectly right. Some never start because they always find something else to build, just in case. Several things need to be healthy to build a business that thrives and survives.

A business can only be as healthy as its founder. If you're struggling with stress and anxiety, things will start slipping to the cracks, further increasing the chaos. But you can prepare. You'll learn about the mental traps and uncomfortable conversations you will encounter and how to prepare for them.

The Survival Stage is the time to turn your prototype into a quality product by building the right things and building things right. We'll look into improving your product slowly and deliberately without adding more complexity than absolutely needed. If you work on keeping the product slim and focused, you'll have a much easier time maintaining and extending your product later.

The moment you have customers, they will start talking to you. You'll learn how to help your users most efficiently without getting distracted from working on your product and business. We will also take a look at the kinds of pricing strategies that could work for your business, which ones might be dangerous, and how to find more customers for your services.

In this stage, everything will be a rapid product iteration. Your goal will be to build resilient systems to deal with the complexity of operating a business while looking for reliable and repeatable processes to guarantee a profitable engine of sustainable growth. You will work on helping customers first to find the product and then find their way through it.

THE STABILITY STAGE AND YOU

THERE WILL BE a point when your business starts humming along. You have built a product that works well for your customers. You've found a pricing model that generates sufficient revenue to pay for the business. Maybe you've committed to the business full-time, and you can already pay yourself a salary.

The important part is that you've built a business that has survived long enough to establish repeatable processes around your product and your business. Now is the time to double down on those and optimize them for scaling. You will need to develop methods and approaches that can deal with much larger numbers of interactions and transactions at this stage.

Developing processes is scary for first-time entrepreneurs, and it feels like something that would reduce your agility and capacity to adapt to changes. You'll learn that it's quite the opposite: by implementing processes and Standard Operating Procedures, you will turn your business into a more flexible, less mistake-prone, and altogether more sellable company.

In this stage, you will work on automating the internal processes of the business. You'll be streamlining these operations into resilient and transferable processes so that you can have a well-positioned company that looks good to potential partners and has opportunities for sustainable growth. Finally, you will build long-term relationships with customers and turn the business into a brand with a tribe.

THE GROWTH STAGE AND YOU

Once you can comfortably run your business without needing to pivot, hire employees, and expand into new segments of the market, you have arrived at the Growth Stage. For many founders, this turns out to be quite a dull phase of the business, as things tend to slow down. Processes are introduced, dependencies are harder to avoid; communication complexity makes decisions harder and takes more time.

If you've been working hard at automating and delegating, you will have ended up with a business that runs like a well-oiled machine. You barely have to spend any time on the operations, and you're left with making the company grow even more. You may be exploring new markets, new products, or partnerships. At some point, you'll find that things have slowed down significantly. The days of frantically pushing out new releases are over. Your MRR is likely in the high five figures, and you can afford to pay your employees a solid salary. What now?

Unless you want to inject your bootstrapped business with millions of Venture Capital suddenly, you have two options: stay in the company and make it even bigger or leave the company and sell it to someone interested in growing the company themselves. Whatever choice you make, you can set the foundations to make the most of it, both financially and professionally.

If you choose the "growth" option, you'll spend the next couple years focussing on growing the team, building out a legacy, and eventually replacing yourself with someone to do the work for you. You'll receive dividends over time, and you'll retain ownership of the business.

If you choose the "exit" option, you'll spend your time making yourself replaceable as fast as you can, growing your wealth in a singular event, the fabled exit, and then doing something else after a while.

Both options will lead to a life of wealth and doing what you want, just at slightly different timelines. It boils down to your interest in being the leader of a company that will soon not be recognizable as a startup anymore: processes and hierarchies will need to be put in place. Capable people who can operate at scale will need to fill positions that were previously held by quick learners that thrive on solving small-scale problems. Things will change, and your choice is between being there to supervise the change or putting the work and the risks of it in someone else's hands entirely.

II

A FEW EXAMPLE CHAPTERS

The chapter named “Not All Subscribers Are Equal” is part of the Stability Stage section of *Zero to Sold*, while the chapter called “Preparing for the Sale from Day One” appears in the Growth Stage section of the book.

All other chapters of *Zero to Sold* will be as actionable and thorough as these two, often with pragmatic steps you can take and with stories that show what own experience has taught me.

I leave no stone unturned. *Zero to Sold* does not leave anything out, neither the good nor the bad.

NOT ALL SUBSCRIBERS ARE EQUAL: DEALING WITH PLANS THAT NO LONGER WORK

You may have started with subscription plans that turn out to be problematic. At FeedbackPanda, we had started with a $5/month plan. After a few months of offering that, we sunset that plan because we noticed that it attracted a kind of customer we did not want to serve: bargain shoppers. The customers on that very cheap plan were using our customer support channels significantly more than those who were on more expensive plans. They complained more and requested more features than anyone else. So we closed off that plan for new users.

They hated it. Many people who had started their trial assuming that they would get a $5/month plan reached out to us and complained that we took it away before they got a chance to subscribe. While it always hurts to receive such feedback, it was still the right course of action. The voices of those who are bothered will always be much louder than the silence of those who don't mind. We saw in our numbers that our conversion rate didn't suffer from this change.

If you remove a plan, you have a choice: you either upgrade all users to one of the remaining plans, or you "grandfather in" their subscription, which means they get to keep their old plan even though it is no longer offered to new customers.

Upgrading All Affected Customers

Your best chance to increase your MRR immediately is to upgrade all of the customers on the plan that you plan to remove. This will also cause a lot of trouble if you're not giving your customers enough time and options to react to the announcement before a single additional dollar changes hands.

Inform your customers way ahead of time. Give them a month if you can. At least, a few weeks should be between the announcement and the actual change. Special focus should be on communicating this change clearly to your trial customers who started their accounts under the impression that this plan would still be available for them. If you want to be particularly friendly, allow those customers to still subscribe to the plan even while it's already unavailable for other users.

Some customers will cancel. A very effective course of action is to reach out to those who intend to cancel and try to get them to stick around with a discount offer. Often, giving them a month for free is enough of a sign of good faith for them to reconsider their cancellation.

Should they still cancel, think twice if it's worth spending more time and effort at winning them back. If at all, try to reactivate them via email a few days or weeks after they quit. New prospective customers who start a trial even though the lower price is gone are who you want to interact with at this point. They and your existing customers who are willing to pay more for a better product should be the focus of your attention.

Grandfathering All Affected Customers

Grandfathering can be great to keep your early customers around, but there is a risk of underselling your product significantly. It can be a business risk not to be able to claim the real value of your product as revenue just because you think your customers are emotionally attached to a lower price. Expansion revenue is made impossible if the customers who happen to be subscribers already are receiving a life-long discount. An excellent way to allow grandfathering is making it conditional and temporary: allow them to keep the lower price for a year if they upgrade to a yearly subscription. Else, force them to upgrade to the new price. Understand that they should pay for the product they receive today, not the product they signed up for years ago.

When we removed our cheapest plan, we decided to grandfather our $5/month customers. One noticeable consequence was that most customers who reached the limits of their plan eventually upgraded. Only a few customers tried to stay under the limit by deleting data diligently. They rather saved a few dollars a month than having access to their old feedback data. As this number was relatively low, we ignored it and never encouraged them to upgrade, as it wasn't worth our time.

We grandfathered our customers indefinitely, which is something I wouldn't recommend. Give your customers a high but finite amount of time to enjoy their old subscription plan. After a year or so, request that they upgrade to the correspondingly more expensive plan. Your product grew in terms of value, so all of your subscribers should compensate you accordingly eventually.

PREPARING FOR THE SALE FROM DAY ONE: GETTING DOCUMENTATION RIGHT

Before any acquisition can happen, many prerequisites need to be in place. There will be an extensive due diligence process. Commonly, "buyer-side due diligence" is the procedure of an acquirer making sure that everything is in order with the business they are about to acquire. It's a detailed investigation, making sure that everything you claimed and promised about your business is actually true.

You can prepare your company for this process to happen as smoothly as possible by following a few principles during the whole time of running your business. If you need to scramble to get everything ready for due diligence only days before it starts, you'll add a lot of extra work at a time when you're already under twice the workload: you'll have to sort through a huge number of documents and conversations as well as keep running your business at the same time.

Selling the company can require a lot of work if you're unprepared. It can be surprisingly easy and painless if you structure your business and operations intending to hand it over one day easily. This is the moment when having built the company in the "Built to Sell" way truly pays off. With all the automation and documentation efforts that you will have put into your business to make yourself as replaceable as possible, an acquirer will take a look into your business and see a well-structured and easy-to-transition company.

Let's take a look at a number of steps that I have found particularly helpful, leading up to the successful sale of our startup FeedbackPanda.

Document Location

It starts with having all your relevant documents and resources securely stored in a cloud-based data storage such as Dropbox or Google Drive. This allows you to access your own documents from anywhere, and it makes it easy just to hand over access to the storage service when you sell. Many businesses will have their own document cloud solutions, so allowing them to integrate all of your business documents right into what they already use is a big plus compared to having to manually import and sort everything.

Structure that storage in a way that makes it clear what each document is, what it’s for, and who might need to use it. Using extensive naming conventions is useful, as you want yourself and any future person to be able to find relevant documents quickly. Keep your essential assets, such as logos and social media templates, in that storage as well. Ideally, all your non-code assets are securely locked up in the same storage service.

Financial Account Separation

Keep your business and your personal accounts separate. This starts with bank accounts. If you want to make sure you have a flawless separation between your private funds and the funds of your business, get a business bank account as soon as you can. While this will incur some fees in most cases, it is also good practice, and it will protect you from overdrafting your personal accounts in case of something going wrong with your business.

Depending on what legal form your business takes, you will be required to have such a separation anyway. If you don't exercise caution from the beginning, any audit of your books will raise concerns in some jurisdictions, and that can lead to hefty fines. If an acquirer acquires your whole business, they also acquire this particular risk. You can prevent this from having an impact on the purchase price by having spotless records of cleanly separated personal and business transactions.

This might be the most important thing to get right from the beginning. You can always untangle usernames and passwords at a later point, but a transaction that hit the wrong account and was taxed differently than it should have been can not be reversed easily after the fact.

Service Account Separation

It's also recommended to have your service accounts kept separate. Create a separate Google account for your business and use that to log into the services you use for your company via OAuth2 or using your business email and a strong password.

Keep all of the login details in a separate 1Password vault, and keep only logins and secure notes related to your business in there. That way, when you hand over your business, all you need to do is to invite your acquirer into that vault, and all relevant credentials will be available to them immediately.

A thought about accounts, logins, and founder email addresses: in the beginning, you will likely have just one email address, like "firstname@yourdomain.com." Mostly, because you don't need another, but also, because if you're using Google Accounts, you will pay per account. I recommend at least making an alias like "services@yourdomain.com" and logging into services using email and password whenever possible. The convenience of logging in with your founder account might be alluring in the beginning, but just like with your bank accounts, it will pay off to have everything separated from any account that is linked to you as a person.

Most services will allow you to change the way you log in through their account settings interface. But some may not, and it will be quite the hassle for your acquirer to remember and use your founder email account to get into these services. This is not a deal-breaker, but it indicates sloppiness, and that is one character flaw you don't want to project.

Thorough Documentation

And finally, document everything—document even how you're documenting things. I don't think there is over-documenting when it comes to something as important as the inner workings of a business. Superfluous documentation can be ignored if it's not needed. Still, there is no way to reconstruct what the original founder of the business did or meant to do when there is no trace of any document or instruction.

Write an extensive Operations Manual from day one. If you do something more than once in your business, write a Standard Operating Procedure for it. It'll be great for transitioning your business over to your successor. Even the smallest task will need to be mentioned or explained, and creating an SOP as soon as you're done with a new task will make sure it won't be forgotten.

If you answer a question in your customer service tool, turn it into a knowledge base article and link to it in your Operations Manual. The more advanced knowledgebase system will integrate with your customer service chat systems and suggest articles when they detect certain search terms. This will save you countless hours of customer support, and having the documentation in place will be a great training opportunity for your acquirer's customer service agents, as it gives you the opportunity to gauge what kinds of problems your customers might run into.

Handing over such a document will be almost like a franchise: the new owner will know exactly how to deal with all parts of the business. They can immediately start running it and train their employees to take over critical functions. The more you document, the faster you can be replaced.

WHAT NOW?

If you like what you've read, please let me know. Send an email to arvid@thebootstrappedfounder.com, sign up to the book release email list at zerotosoldbook.com, and follow me on Twitter at @arvidkahl.

Any feedback is welcome.

Thank you.