

Lessons Learned from Three Years of PeepCode

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Today marks three years of PeepCode Screencasts and the beginning of the fourth. So we're running a one-day sale!

Last week I recorded a presentation for the Oxente Rails where I pontificate on some of the things I've learned about business over the past few years. Here's the presentation video (it's about 30 minutes long):

Transcript

Introduction

I am Geoffrey Grosenbach and my company is PeepCode Screencasts.

Thank you for inviting me to speak over video at Oxente Rails today. It's an honor to be asked to speak and I'm flattered to be able to speak on what I've learned about business. Over the last few years I've frequently been asked to be a paid sponsor for conferences, which seems to imply that people think I'm running a business that makes money. But this is the first time I've been asked to talk about it.

I guess that's not too surprising. Up until a few months ago I was the only person working at PeepCode daily. When people want to learn how to run a successful business, they probably want to hear from someone with dozens of employees and tens of millions of dollars a year in revenue.

But here's the first thing I want to tell you: Maybe that's not the kind of business you want to run. One of you asked "How has your professional success improved your personal life?" Honestly, it's made it more stressful and less predictable than before! It's the difference between driving a motorcycle and riding one as a passenger.

As the owner of a business, you're the one who determines whether or not you keep your job. If you make good decisions, you'll profit and the business stays alive. If you make bad decisions, you'll see your bank account start to head south. But I can honestly say that I love that part of running a business. The things I do every day matter and have a real effect.

And yet it's often unclear what should be done each day. There are a thousand little things that could be done, but they aren't equally important. Creating new products, making connections with other businesses, working with subcontractors, advertising.

One of the successful businesspeople I admire is Adam Wiggins, currently co-founder of Heroku.com web hosting. He recently wrote a blog post where he compared video game skills to business skills and I think each of them were profound. The one I want to mention is "Planning for an Uncertain Future." In games, in business, and in life, you're better off if you make plans for the future. But the kicker is that you don't know what future you should plan for. So you have two problems right away: guessing what will happen in the future, and then figuring out what you need to do to succeed against it.

I chose my unofficial company title of "Senior Visionary" with humor, but living up to it has become my daily goal. I encourage you to take the same title, and think of that as your role in your business.

Another thing you might not expect to hear from someone who claims to be a successful businessperson is that I'm actually a bit surprised that I've been able to run a business for this long. PeepCode starts its fourth year this month. Combined with a few years of consulting, I've worked for my own company longer than I've worked for any other single company.

Why am I surprised? Growing up I was not very good at board games or video games. Put me against most anyone in Monopoly, Risk, Settlers of Catan, or any other board game and I'll probably lose. At the time I was convinced that mastering these games was equivalent to mastering business in real life.

One of the most successful businesspeople I know personally is a friend from high school. He started a few businesses and has sold at least one for a million dollars. He was the first investor in ICanHasCheezeburger.com, so he is at least a visionary in terms of cat humor. He was fantastic at all kinds of strategy and board games, all the way down to how he operated the snack bar during school sporting events.

Fortunately those skills didn't turn out to be necessary to run a business. I can say that I won the first house poker tournament I entered a few years ago, so maybe there's a lesson. Learn to play poker!

One skill that is important is being able to respond to change. I frequently think back to a quote I saw in a skateboarding video from a few years ago where photographer Grant Brittain talked about the changes he had seen in the sport and business of skateboarding over the past 30 years. He said that everything changes, and if it stops changing, it dies. I think that's part of the stress and unpredictability of running a business: you can almost guarantee that a success one month or one year won't be successful the next year. Your skill as a businessperson isn't about finding one hit and riding it out, it's about learning the skill of understanding the present, looking to the future, and making bets about what might happen.

True & False

Giving and receiving business advice is one of the most deceptive practices around. There are so many factors involved in starting and running a business that most people don't really know what initially made their business successful. And I usually suspect anyone who gives business advice because I assume they are holding back their best ideas for themselves. So let's start with two blatant falsehoods. I'm limiting myself to Internet-based businesses of non-tangible goods. Software, digital products, websites.

Paid Products:

First, many people who try to start an Internet business are scared by the vocal, apparent majority who refuse to pay for anything online. When people learn what I do, they often say "People pay for that?" You often see this sentiment expressed on news aggregator sites or in comments on 99¢ iPhone apps complaining that they should be free. The easy conclusion is that no one should try to start an Internet business that charges for a product. Over the last three years I've found this to be absolutely false.

There are two things to say here. First, the free product market is completely separate from the paid product market. I haven't done a sociological study of this, but as far as I can tell from my business, there is an Internet economy made of people who don't pay for things and there's another entirely separate one made of people and businesses who have no problem with paying for products (an even prefer it).

This isn't a criticism of people who prefer free. I use many services that are free. But building a business on the free product market is very difficult, as has been shown repeatedly by startups that build a huge user base but can't figure out how to profit from it.

Second, charging a price for something changes the way people perceive it. We expect more from products and services we pay for. If I subscribe to a service and it doesn't fulfill my needs, I change to another one. Businesses have budgets that they need to spend on products that cost something. People give gifts and usually want them to have monetary value. People who try your free services might like them so much that they want to upgrade to a paid plan. This creates a responsibility for you, the entrepreneur, but it's also a benefit because you know that the people who repeatedly buy your products find them to be useful.

So my advice is: if you are starting a business, build it around a product that you sell directly to people rather than trying to earn money on advertising or other means.

Instant Success:

A second falsehood is that products succeed or fail quickly. We like overnight success stories.

But, as has often been illustrated, inspirational success stories often have more history behind them.

The Flip video camera became the best-selling camera on Amazon.com from the first day it launched in 2007. The company was bought by Cisco earlier this year for almost \$600 million. But the company had a long history of near failures or modest successes for the four years previous. They first sold a disposable still camera in 2003. Then they tried a disposable video camera that could be converted to a DVD. Then finally they made the USB-based Flip video camera that became a hit. (ref)

In contrast, one of my first products failed because I abandoned it while it was still popular. In 2002 I wrote a desktop RSS reader for the Mac. There weren't many available at the time and mine had some advanced features such as the ability to use regular expressions to monitor a site that didn't yet publish an RSS feed. Cory Doctorow of Boing Boing tried it and wrote back with some feedback. But as a novice, I released one version, bought some advertising on a Mac news site, sold a couple dozen copies, and never touched it again. I have no idea if it could have been more successful because I stopped working on it before it had a chance.

So there's no shame in changing your product or the way you sell it, but stick with it. A business needs at least a few years of fine tuning to build momentum.

Products

So let's talk about products. There are several ways to sell software. You can sell a one-time product, usually a downloadable software application such as TextMate (39€) or TaskPaper (\$30).

Or you can sell a recurring service, usually on a website. Recurring services I use include Backpack calendar, Highrise address book, Blinksale invoicing, GitHub source code control, Sifter issue tracking, in addition to web hosting, DNS hosting and email hosting.

A third option is a one-time product that is released frequently such as PeepCode screencasts, books, magazines, etc.

Creating a product and fine-tuning it is one of the hardest things you'll have to do when starting a business. Here are my personal goals for any product I create

* Sell an investment. By this I mean that your product should help the buyer make more money than was spent to acquire your product. When I sell a PeepCode screencast for \$9, the customer should learn information that can be used to earn more than \$9. Given the fact that a one-hour screencast takes several weeks to research and produce, I think this is pretty likely.

* Second, sell to businesses instead of consumers. This includes everything from one person businesses to universities, corporations, and even governments. People obviously make money selling to consumers, but I've chosen to target businesses. This is partly because of point 1 and partly because businesses have budgets set aside for training, education, etc.

The type of product you choose to sell determines what goes into building it. A frequently released product probably requires less initial effort to build the first time. I spent one month on the very first PeepCode screencast. Recently I started a side project with a friend in Seattle. It's a desktop application and we expect to spend several months building the first version. A website or service could be anywhere in that range, all the way up to several years.

As a software developer, you have an incredible resources available to you, namely your mind and your time. A non-technical businessperson would need to hire a developer at expensive hourly rates, but you have those skills already. Areas you may need to invest real money into might be legal, accounting, and artistic/UI. Which leads to people.

People

In 1975, Fred Brooks wrote a book titled *The Mythical Man-Month*. One of the lesser known essays from that book suggests that software teams work like a surgical team. The surgeon performs the critical actions during surgery, but is assisted by specialists. The surgeon could prepare the patient for surgery, or reach over and grab a scalpel, or monitor vital signs, but this would be a waste of time. Instead, the surgeon focuses on what a surgeon does best.

In my experience, this is the first part of scaling a business. You could do the accounting, the front end web design, and the legal paperwork to get the business started, but it would be a waste of your time. My lawyer costs close to \$300/hour, but he does great work and does it much more quickly than I could. My accountant helps me save thousands of dollars a year by figuring out when to pay taxes on time and how to do it. I have several outsourced assistants that transcribe audio, do research, reply to support emails, and other tasks. Post a job on your blog, or use a service like ODesk.com.

Business Partner:

Another person that you should think about is a business partner. This is a friend who has an interest in the success of the business and can complement your skills. I started PeepCode on my own and I think it would have gone much more smoothly if I had found someone to start it with. On the other hand, it could have been worse, too! A business partner should be someone you know well because you'll be making many important decisions together.

Ideally, it would be a person who understands the technical side of the business but who skills that you don't: business management, artistic, usability, financial.

Running a business involves both macro-decisions (such as what product to create or what to call the

business) and micro-decisions (such as what shade of pink to use for the logo or what to work on today).

Paul Graham recently wrote an essay contrasting the daily schedule of managers vs. creative individuals. Managers and businesspeople might do 20 different things in a day and have no problem adding another thing to their schedule. Creators need at least a half day or even a full day to build momentum. If you're the only one working on the business, you'll have to do both. So split your week into alternating days of managing and making, or get a business partner who can do the managing so you can focus on creating.

The Rest of Life

One more thing before I address some questions. Don't forget about the rest of your life.

I work very hard on PeepCode, but I limit myself to about 10 hours a day maximum. If you're always at the computer, you miss out on other ways of thinking. A nap can be useful in the middle of the day both to recharge your body and to let your subconscious mind focus on a problem.

Get exercise. I interviewed a brain researcher who observed that the mind is less active when the body is sedentary. And not just weight lifting either...you need to get your heart rate up. I run or bike a few times a week and I notice a huge difference when I do it.

Conclusion

In conclusion,

- * Charge a fair price for your product.
- * Stick with it for at least a year, maybe a few years.
- * Choose a type of product that matches the time, effort, and money that you want to invest.
- * Surround yourself with specialists.
- * Start the business with one other person that you know well.
- * Work reasonable hours and get exercise.

Questions

A few questions that were sent in previously.

How did you decide to start making money with screencasts, something that nobody (or almost nobody) used to do before PeepCode?

The most straightforward answer is that I wanted to buy quality screencasts on technical topics and no one else was doing it. I made a product that I wanted to use myself.

I knew that screencasts were popular. You have the original "Build a Rails Blog in 10 Minutes" screencast. Other people were posting screencasts to their blogs in those early days but they would often mumble into the microphone and they weren't very well presented.

I knew that screencasts could make money. At MacWorld a few years ago, Lynda.com had one of the biggest booths on the entire show floor. They produce top notch screencasts on Adobe Photoshop, After Effects, and other visual applications. And they run a profitable business doing it.

So the last step was just experimentation. I literally started out with just a blog, a link to a third-party shopping cart, and a video I had spent a month on. It was nowhere near to the visual quality of the screencasts we make today, but people loved the content and they bought enough copies to tell me that I should keep doing it.

Since then, several other publishers have gotten into the screencasting business. Ryan Bates started his excellent RailsCasts blog with a huge following (I was the first paying advertiser on his site for its first year).

So you have to start with an idea and try it. Hypothesis, experimentation, evaluation.

Was it an extra challenge to convince people to buy something digital? Non concrete?

I knew that some people would never pay for digital products, so my goal wasn't to convince them to pay for a digital product.

If your business depends on convincing people to do something they don't want to do, it will fail. Think of any popular or successful business. It's probably because they help people do something they already want to do.

My goal was to find out if there were people who wanted what I wanted and could make a mental calculation to figure out that it's actually a better investment of their time and money to pay \$9 for a screencast that will save them days of hunting for that information. It turns out that there are a lot of those people.

One of my favorite books is "Information Anxiety" by Richard Saul Wurman, founder of the TED conferences. He talks about the flood of information available to us and the value of consuming a filtered stream of information that tells us just what we need to know. There's actually a value in filtering the available information, reducing it down to the essentials in a format that can be consumed quickly. That's what I'm offering.

Even now, you can probably find some leaked PeepCode products on BitTorrent if you spend enough time hunting. But many people have told me that they discovered PeepCode there and later came to buy it at my site, so I call that a win.

What were the biggest mistakes you committed at PeepCode? What did you learn with them?

That's a great question. "Mistake": a wrong or misguided action, sometimes because of inexperience. My whole experience has been a process of going from inexperience to learning how things should be done!

I started PeepCode with blog software and a third party shopping cart that took a 20% fee. There's no way I could run the business now if I still used that system. But it helped me start and I don't regret it.

I put a lot of time, money, and development into building a PDF publishing system, but it turns out that people want video from PeepCode. The publishing system is really great for publishing on code-related topics. Authors write in Textile or Markdown, like a blog article. But other than a few titles that sold really well, it turns out to be better for me to take the same content and publish video instead.

I waited way too long to buy decent software. A quality video editing suite was US\$1,300 at the time and seemed like a lot of money, so I edited by cutting and pasting into the Quicktime Player for the first year of PeepCode. Since then I've bought over \$5,000 of software for editing, effects and compression. It has been worth every penny. But when you're starting, you're worried about spending too much money and don't want to go nuts with every piece of hardware and software that catches your eye. For example, I bought a MacBook Air which is horrible machine for video editing (even though many developers use it daily for coding).

Some mistakes may still be in process! Last month I signed a contract to distribute some PeepCode content through a third-party publisher. I have no idea if this will turn out to be a good idea or a bad one. But I can cancel on short notice, without which I wouldn't have signed it. So like many other ideas, it's a hypothesis and I'm testing it against the real world.

What did you use to do before becoming an entrepreneur? And why did you decide to become one?

My university degree is in Philosophy. I've hacked on computers since I was 10 years old and worked at a startup writing software in Java and old-school ASP while I was still at the university. Afterward I worked at a few other startups writing Perl, taught computer-related topics at an American school in Taiwan, and worked as a Rails freelancer and workshop instructor.

I wanted to become an entrepreneur because I thought I could run a business better than the other businesses I had worked for. Most of them made horrible mistakes and still survived in some form. So I thought if I could operate a business without making mistakes of that magnitude, I could do well.

I also wanted to see if my ideas were worthwhile or not.

What is the current statistics for Brasil and Latin America regarding PeepCode products?

Last year Brasil was the 6th highest purchaser of PeepCode products. So far this year it has been overtaken by France, Sweden, and Holland, but the year isn't over yet!

About half of PeepCode products are bought in the USA, a quarter go to other English speaking countries like the UK, Canada, and Australia. The rest is split between 100 other countries led by Germany, France, Sweden, Holland, and Brasil.

We've published translations of a few PDFs but people were mostly interested in the English versions.