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How to Make Money in 6 Easy Steps

Entrepreneur Jason Fried offers the most fundamental of all small-business advice: how to get good at making money.

By Jason Fried | Mar 1, 2011

A few years ago, I decided I wanted to learn to play the drums. I've always loved the drums. Whenever I listen to music, I hear the drums first. I can listen to a great jazz drummer like Art Blakey for hours on end. I'd give up almost anything to be as good as Glenn Kotche of Wilco.

The path to learning the drums is pretty clear. You sign up for some lessons, you get some pads, you get some sticks, you learn some drills, and you practice. And you keep practicing. Every surface—your desk, your leg, your steering wheel—becomes a drum. You get better over time, but you never really stop practicing.

This is how we learn most things. Whether you want to be a writer or a musician or a painter or a baker or an accountant, the way to get there is fairly clear. Not everyone's going to be as good as he or she would like to be, but at least you know where to start. Lessons, classes, books, internships, workshops... All of these things are accessible to most people who want them.

One of the interesting things about picking up the drums was that I realized it had been some time since I had actually tried to learn something new. We spend most of our childhoods learning new things. But as you get older, the frequency with which you develop new talents slows down. Sometimes it stops completely.

That said, when I first started playing, I was bad. I sounded like someone was tripping over a drum set and knocking it on the floor. When you suck so badly at something new, it's comforting to know there are other things that you actually are good at. And being bad at drums reminded me of what I have gotten pretty good at: making money.

Today, I run 37signals, a software and design firm that I co-founded in 1999. Sales have grown at double-digit rates every year for the past decade; so have profits. (Like many private companies, we don't disclose revenue.) How did I learn how to do this? I have a degree in finance, but I don't remember taking any classes that even remotely taught me how to make money. I've read plenty of business books. Same thing—lots of talk about money, but not much about how to actually make the stuff.

One thing I do know is that making money is not the same as starting a business. For entrepreneurs, this is an important thing to understand. Most of us identify with the products we create or services we provide. I make software. He is a headhunter. She builds computer networks. But the fact is, all of us must master one skill that supersedes the others: making money. You can be the most creative software designer in the world. But if you don't know how to make money, you're never going to have much of a business or a whole lot of autonomy.

This is not about getting rich (though there's certainly nothing wrong with that). Instead, for me, making money is about freedom. When you owe people money, they own you—or, at least, they own your schedule. As long as you remain profitable, the timeline is yours to create.

It took me a long time to figure out how to make money. Here's how the lessons unfolded.



Shoes, Tennis Rackets, and More Shoes

Understanding the buyer is the key to being a strong seller

It started when I was about 14. In Illinois, that's when you can start working (with your parents' permission). So I went with my dad to get a worker's permit and got a summer job at the local grocery store. I don't remember learning much there. But a year later, at my next summer job, the lessons flowed.

I was working at Shelby's Pro Shop, a golf and tennis retailer in Deerfield, where I grew up. I sold shoes and tennis rackets. I didn't play tennis, but I learned how to be a very good tennis-shoe and tennis-racket salesman. That's because I made the discovery that people's reasons for buying things often don't match up with the company's reason for selling them.

Manufacturers used to dispatch reps to the pro shop to educate us on their latest and greatest technologies. They'd tell us about the new ethylene vinyl acetate midsoles that made shoes more comfortable; the Goodyear-brand rubber outsoles that made the shoes more durable; the new variation of Nike Air that was miles ahead of the competition.

They thought they were arming us with facts that would impress the customers. But, it turned out, none of that stuff mattered. In fact, it had a negative effect. When you describe things in terms people don't understand, they tend not to trust you as much. Trust is important. You can bluff your way into money, but for only so long.

Once I stopped slinging the technical terms, I realized that when customers shop for shoes, they do three things. They consider the look and style. They try them on to see if they're comfortable. And they consider the price. Endorsements by famous athletes help a lot, too. But the technology, the features, the special-testing labs—I can't remember a single customer who cared. I sold a boatload of shoes and tennis rackets that summer.

Understanding what people really want to know—and how that differs from what you want to tell them—is a fundamental tenet of sales. And you can't get good at making money unless you get good at selling.

I learned this as a teenage shoe salesman, and it still drives how I operate.

To be sure, this is hardly a unique insight. But judging by the number of companies and products that totally miss the mark, day after day, it's a lesson that needs to be learned again and again.



The Middleman Years

In which I sell electronics, knives, and throwing stars—and learn that it's all about passion

After a couple more summers at the pro shop, I decided to start my own business. It hadn't taken long to notice that retail was pretty simple: The store bought stuff from distributors, marked it up, and sold it at a profit. Why couldn't I do that, too? It turned out, I could. I got a reseller's license from the state of Illinois. This allowed me to buy stuff cheaply from distributors.

This is where I learned my second key lesson: Sell only things you'd want to buy for yourself.

I originally got the reseller's license so I could buy stereo equipment, computer equipment, a cordless phone, and a radar detector. (My rusted-out Datsun 510 was held together by bungee cords and duct tape, but I still liked to drive fast.) I soon realized that if I wanted these things, my friends probably did, too. I could sell them stuff below what they'd pay in the store and still make a profit. So I picked some prices that seemed reasonable, pitched my peers, and the orders came in. I didn't sell a lot, but picking up an extra \$100 here and there is a big deal when you're a teenager.

I began offering more items. Somehow I got hold of some military-supply and sporting-goods catalogs. I cut out the pictures of the stuff that looked cool—butterfly knives, throwing stars, pocketknives, and some other things I'd prefer not to mention—and created my own catalog, which I photocopied and gave to my friends. The stuff, as they say, sold itself.

I didn't have a credit card—remember, I was in high school at the time. So I ordered the items COD, cash on delivery. I'd learn when UPS would be coming and feign illness so I could stay home from school. The delivery guy rang the doorbell, I gave him the cash, and he handed over the boxes. I don't know if they do COD anymore, but man, was it exciting back then. No one got rich—and I don't think anyone was injured—but it was a great education. And the lesson stuck.



That'll Be \$20, Please

How, and why, to charge real money for real products

Around my senior year of high school, I started getting interested in computers. I also liked music. My collection of tapes and CDs was growing, and I wanted a better way to keep track of what I had and what I'd loaned out to friends.

This was before the World Wide Web. So I tossed one of those junk mail AOL CDs in the computer, installed the program, and convinced my parents it was worth the monthly fee. ("It'll help me research and study!" I argued.) I started searching for tools to help organize a music collection.

There were a ton of them. Most were made with software called FileMaker Pro, a program that makes it easy to create simple databases without really knowing how to program. FileMaker also lets you design your own interface, so you can make things look any way you'd like. Most of the music-organization programs were free and pretty lousy—ugly, hard to use, loaded with unnecessary features.

I decided to figure out how to make my own. I got FileMaker Pro (I paid for it with the stash I'd saved up selling stuff to my friends) and started messing around. After a few months, I had solved the problems I had with organizing my music. I knew what music I had, where it was, whom I had loaned it to, how much I paid for it. The solution was elegant and easy to use. I called it Audiofile.

Most of the music-collection products on AOL's file section were freeware. Download them, install them, and you don't owe the author a dime. There were a few shareware options (you pay if you use them, but it's mostly an honor system), but most were free.

I'd already learned that I really enjoyed making money. And I thought that Audiofile was good. And even then, I thought that if something was good, then it was worth paying for. So before making it available to other AOL users, I added a limit in the program—people could file 25 CDs for free; after that, it would cost \$20 to unlock Audiofile and remove the limit.

I remember my first customer. One day my parents gave me an envelope. It came from Germany and had those airmail stripes at the top. I opened it up, found a screenshot of Audiofile printed on a piece of paper—and a crisp \$20 bill. More envelopes rolled in. Over the next few years, Audiofile probably generated \$50,000—not bad for a kid in college in the early '90s.

The lesson: People are happy to pay for things that work well. Never be afraid to put a price on something. If you pour your heart into something and make it great, sell it. For real money. Even if there are free options, even if the market is flooded with free. People will pay for things they love.

This lesson is at the core of 37signals. There are plenty of free project management tools. There are plenty of free contact managers and customer relationship management tools. There are plenty of free chat tools and organization tools. There are plenty of free conferences and workshops. Free is everywhere. But we charge for our products. And our customers are happy to pay for them.

There's another lesson in here: Charging for something makes you want to make it better. I've found this to be really important. It's a great lesson if

you want to learn how to make money.

After all, paying for something is one of the most intimate things that can occur between two people. One person is offering something for sale, and the other person is spending hard-earned cash to buy it. Both have worked hard to be able to offer the other something he or she wants. That's trust—and, dare I say, intimacy. For customers, paying for something sets a high expectation.

When you put a price on something, you get really honest feedback from customers. When entrepreneurs ask me how to get customers to tell us what they really think, I respond with two words: Charge them. They'll tell you what they think, demand excellence, and take the product seriously in a way they never would if they were just using it for free.

As an entrepreneur, you should welcome that pressure. You should want to be forced to be good at what you do.



Model Madness

There are different pathways to the same dollar

Don't just charge. Try as many different pricing models as you can. That's a great way to get better at making money.

Before I launched 37signals, I worked as a freelance Web designer. I charged clients by the hour. I work quickly. But I soon realized that charging hourly penalizes efficiency. If I can finish something in an hour that might take someone else three or four hours, why should I be penalized? So when we launched 37signals in 1999, we charged clients by the project.

It worked great. But as the projects started getting bigger and costing a lot more, I noticed that clients became more reticent about signing on. Big numbers and long time frames make people nervous. More money and more time mean more risk, and risk is something all companies would prefer to avoid.

I thought about the problem and decided to try something new. Instead of doing long, expensive projects, we'd do short, affordable ones. Instead of billing \$50,000 for a 15-page website redesign that would take three months, we'd charge \$3,500 per page and offer to complete the page in a week. If you want another page, it's another \$3,500 and another week. We called it 37express.

It took off. It took the risk out. It let companies try us out before committing to something big. And it was a lot more fun for us—fewer meetings, less stress, fewer decisions to be made. Just a quick one-week project for a fixed price. If you want more, we'll sell you another.

We no longer design websites, so we don't offer 37express anymore. But it was a fantastic way to make money. Remove the fear, and people will be more willing to pay you. People don't like uncertainty—especially when they have to pay for it. A week and a fixed price is certain.

We've continued to experiment with pricing models. It's been a great way to get a 360-degree view of how customers think about their money and our products. Our apps, for example, are available as monthly subscriptions for \$24 to \$249 per month. We've sold our book *Getting Real* as an instant download for \$19 and as a paperback for \$25. We've sold tickets to our eight-hour workshops for up to \$1,000. Listings on our job board are \$400 for 30 days. We sell listings on Sortfolio, a service we built to help small businesses find Web designers, for \$99 per month.

We've even sold promotional T-shirts, for \$19, when just about everyone else in the business gives them away. People wear shirts they paid \$19 for. People turn free T-shirts into rags. Rags don't promote anyone.



It's Never Too Soon to Be Hungry

The true value of bootstrapping

I began learning these things when I was 14. And I'm glad I did, because the habits entrepreneurs develop early in their careers go a long way toward determining their success.

I've borrowed money to start a business only once. My parents gave me \$5,000 to buy my first computer when I went to college. I'm embarrassed to admit I never paid them back, but that's only because I knew they'd never accept the money. One day, I'll figure out how to make that happen.

But that's it. Everything else has been bootstrapped—even though dozens of venture capitalists and private equity firms have offered us lots of money. Instead, my customers have always been my investors. My goal has always been to be profitable on Day One.

I can't say enough about bootstrapping. Whether you're starting your first business or your next one, my advice is to bootstrap it. Bootstrapping forces you to think about making money on Day One. There's a fundamental difference between a bootstrapped business and a funded business. It's all about which side of the money you're on. From Day One, a bootstrapped business has no choice but to make money. There's no cushion in the bank and not much in the pockets. It's make money or go home. To a bootstrapped business, money is air.

On the other hand, from Day One, a funded business is all about spending money. There's a pile in the bank, and it's not there to collect interest. Your investors want you to hire, invest, and buy. There's less—and in some cases, no—pressure to make money. While that sounds comforting, I think it ultimately hurts. It replaces the hustle, the scrap, the fight, with a false comfort of "we can worry about that later."

Anyone can spend money. Making it is the hard part, and being forced to do it early is one of the best ways to get better at it later.



Try, Try Again



A word about practicing

Like I said at the outset, it's all about practice. Whether you're playing drums or building a business, you're going to be pretty bad at something the first time you try it. The second time isn't much better. Over time, and after a lot of practice, you begin to get there.

So here's a great way to practice making money: Buy and sell the same thing over and over on Craigslist or eBay. Seriously.

Go buy something on Craigslist or eBay. Find something that's a bit of a commodity, so you know there's always plenty of supply and demand. An iPod is a good test. Buy it, and then immediately resell it. Then buy it again. Each time, try selling it for more than you paid for it. See how far you can push it. See how much profit you can make off 10 transactions.

Start tweaking the headline. Then start fiddling with the product description. Vary the photographs. Take some pictures of the thing for sale; use other photos with other items, or people, in them. Shoot really high-quality shots, and also post crappy ones from your cell-phone camera. Try every variation you can think of.

I love doing this, because there's no real risk involved. If you already have a business, you don't need to dream up a new product line or rock the boat with crazy experiments. If you don't have a business, it's a perfect way to work on your chops.

Jason Fried is co-founder of 37signals, a Chicago-based software firm, and co-author of the book Rework, which was published last March.

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