

EPISODE 1322

[00:00:00]

FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1322, Elaine Pofeldt, author of *Tiny Business, Big Money*.

“EP: People really do believe small is beautiful. There are a lot of scalable entrepreneurs who inspire us. Oh, but a lot of people are really looking for something that can function almost as a job but then some.”

[INTRO]

[00:00:51]

FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. Focusing on small businesses today, if you're in the audience looking for your next entrepreneurial act or your first entrepreneurial act, our guest today says you don't have to go big. Tiny is the trend. Elaine Pofeldt joins us again on So Money, a recurring guest. Her latest book is called *Tiny Business, Big Money*, where she offers her blueprint for getting a running start with your micro business, in other words, a business with no more than 20 employees. That includes you. It follows her previous book, *The Million-Dollar, One-Person Business*, where she offered the steps towards solopreneur ship.

In *Tiny Business, Big Money*, Elaine profiles about 60 micro businesses. They've all reached a million dollars in annual revenue. In our conversation, she shares what are those industries that are the best for starting a micro business, the average startup cost, and how long it may take you to reach that seven-figure threshold. Here's Elaine Pofeldt.

[INTERVIEW]

[00:01:54]

FT: Elaine Pofeldt, welcome back to So Money. It's nice to reconnect.

[00:01:58]

EP: Oh, my god. It's so nice to reconnect, Farnoosh. Thank you so much.

[00:02:02]

FT: Congratulations on your new book. I can't wait to read the rest of it. I started reading it over the weekend. It's all about tiny businesses. I was laughing because the tiny house, the tiny home trend, and now there is something to be said about this tiny business trend. Your book is called *Tiny Business, Big Money*, where you profile 60 micro businesses that have all reached a million dollars in annual revenue without losing control, without selling out. I'm sure a lot of them are working from home too most days.

You say that now more than ever, now more than ever, not only is it a prime time to start a business, but in particular this kind of business, tiny business, where small teams, like no more than 20 people on your team, and some of them can be virtual. They're not – You're not all meeting up every day in an office. Tell us about some of the discoveries that led up to this book.

[00:02:02]

EP: Sure. Well, it's funny that you noted the title. I actually thought of the title when I was in Austin, Texas, and I was talking to folks about the tiny house movement. I thought people really do believe small is beautiful. There are a lot of scalable entrepreneurs who inspire us all, but a lot of people are really looking for something that can function almost as a job but then some. Not just the grind of paying the bills, but you're making a little more than that, so you can enjoy all the good things in life. That's why I've become so interested in these businesses in the first book, *The Million-Dollar, One-Person Business*.

What I found with *The Million-Dollar, One-Person Business* was a lot of these entrepreneurs were now getting to that next stage where they would apologize to me for hiring their first employee. I would say, "Don't apologize. That's really fantastic. But they were making a

transition out of total freedom to having to lead a team, even if it was a team of one or two people, and realizing they could quickly become a bottleneck if they are not communicating with the team, if they're not telling people what they expect, if there aren't clear definitions for what success looks like, and all of that stuff.

So I started asking around as to how others who are a little bit ahead of them and doing this we're handling it, and it was really fascinating. They're not doing it in the corporate ways that many of us were trained in. They're managing their businesses in ways that work for them. Like one entrepreneur, Brian Dean, he founded Backlinko, and SEO business. He managed the whole business on notion, and he just had an exit. He just sold it to Semrush. I thought, well, that was good enough for an exit strategy, so it's good enough for me. I'm going to look into it.

[00:04:36]

FT: Well, you mentioned your previous book, and we had you on for your previous book, where you profiled solo entrepreneurs who are making seven figures. I understand that there are benefits to scaling up from your staff perspective. But when does it become counterproductive because more doesn't equal more? Like hiring more people and, yes, making more money but then the profits might still be the same. So from what you've learned, like when is it healthy and wise to go from being that solopreneur to hiring 5, 6, 10 people? When is it worth it, and when do you know maybe you should just stay small, smaller?

[00:05:16]

EP: I think usually what happens is people reach capacity, where there's slippage in the business, and they realize that any benefit they're getting from not having the complications of having a team are being counteracted by the stress of not getting things done and having to apologize to clients for forgetting things and the kind of things that happen when you're over the capacity that one person can handle. Usually, what I found is they follow a progression where they're not going straight to hiring employees. They'll start with automation.

There's one entrepreneur in the book, **[inaudible 00:05:53]**, who he worked in big tech, and he created a business that sells specialized reports on investing. He created that as almost a totally

automated business. He did use contractors to build some of the technologies, but then he didn't need them anymore. So it just him and his automation. That's usually the first step. Then people might go to automation, plus a few contractors, maybe a bookkeeper, and then maybe like social media person, depending on the industry. That's when they start thinking about hiring employees.

Some never get past that. About 30% of the entrepreneurs in the book just built an extended team of contractors, but they function more as a cohesive team than in *The Million-Dollar, One-Person Business*, where maybe it was a random contractor or two. Then there comes a point where you do the math, and you're hiring these contractors who charge \$100 an hour or \$150 an hour, and you need them for 35 hours a week. It's starting to get very expensive. Plus you need them, and they're juggling other projects. So that's where you have to do a little bit of the math as to whether it would be more profitable for you to have them on staff, with all the administration that takes, with paying the taxes and everything else.

There's also another factor which is compliance. You have to classify some people as employees. It's not really your choice. If you're using them in a certain way where they work certain hours for you, you control where they work. You control the work product very closely. So that's another factor where the fines that you would get for misclassifying people would be so much more than you would save by keeping them on as contractors when they shouldn't be. So that's another reason that you might decide to hire them.

[00:07:37]

FT: Sure, sure. I was reading in your book a statistic that in 2020, US businesses skyrocketed. The formation of US businesses skyrocketed about 43%, and the surge is continuing. Tell me what you think is happening right now in the entrepreneur space, in particular, this specific category of smaller businesses, micro businesses.

[00:07:59]

EP: I think the great resignation has played a role, Farnoosh. I think a lot of people rethought what they wanted out of work during this long period of COVID, and some people had more

time. They weren't commuting. It would have been very hard for them to start a business on the side because they spent an hour, an hour and a half, two hours a day, coming back and forth to work. Now, they were done with work when they clicked off their last Zoom call. Maybe they could go do something for a while and then jump on discreetly and start a side hustle.

The good news is I think a lot of people discovered they were good at it, and they're keeping those businesses going, whereas they would have never had a chance to test their entrepreneurial mojo. It's not something we learned in school, and a lot of people, they're hustling, doing their work to pay the bills, and so they just never have that opportunity. But now, they did.

Also, a lot of things went online, and people couldn't help but notice that, that that was such a growth area. So we saw a lot of growth in e-commerce and a lot more digital things going on to make it easier for people to transact business. So I think part of it is that too. Just the ease of starting a business has gotten greater and the opportunities are there.

[00:09:15]

FT: Although it was a very difficult time financially for a lot of families in the pandemic and still is, a lot of us also were hoarding cash because we were scared, and we didn't know if we were going to lose our jobs. So if we were continuing to make money, if we were fortunate enough to still have jobs, we were saving. Also, we weren't going out so that it wasn't that hard to save more if you could. I wonder if that fueled not just the ability for entrepreneurs to begin ideating and have more financial runway to experiment with an idea and put a little money towards it. But also, from the consumer standpoint, like now you have maybe a consumer that has a deeper pocket.

I noticed that one of the more popular startups in the last year, high-end personal services. That reminds me of a friend whose business took off in the pandemic, and she's a fashion consultant, shopping consultant. She helps you find a wardrobe. She'll shop for you. You would think you need to be in person for this, but she was able to master this entirely virtually. What are the startup costs typically for these kinds of tiny businesses? We want to get into some more of the

specifics like what are the businesses that are successful, how much are they spending. What is the startup capital, typically?

[00:10:35]

EP: It's very low for most of them. I mean, it really ranges. If people have to order inventory, it would usually be 50,000 or more. But for a lot of these people, it was less than 5,000. One entrepreneur was a medical student. Her name is Ana Gavia, and she's in Australia. She grew up in a beach community, and she was always searching for the perfect bikini, and she started sketching them. So she went online in her free time on Alibaba, which is a marketplace for sourcing factories. She found one that was willing to make one sample. She had \$200 to apply to that. She couldn't even afford to make a sample of a dress because she was a student. She put it up on Instagram, and she drove traffic to it with a Facebook ad. She saw if women would pre-order the bathing suit. 1,000 of them did, so she knew she was on to something. She gave the order to the factory, which was willing to do a very small run for her and grow with her. She used the sales from that to fuel her next bikini.

Her guiding principle was never to introduce a bikini to the manufacturer, unless she had pre-orders. So that's a way to conserve your capital. There are a lot of methods like that that I learned from the entrepreneurs in doing the case studies. If you have just a few hundred dollars, there is a lot you can do, depending on your industry. I mean, if you're doing professional services, you basically just need a laptop and a phone sometimes. What I do, I do ghost writing. I just talked to people and write, so I don't really need anything. As you want to grow a business, you might need to put money into marketing. But sometimes, you don't. Sometimes, it's just word of mouth.

[00:10:35]

FT: You write in your book that the riches are in the niches, and that the challenge is landing on a niche. So any advice around that? It's hard. I mean, you mentioned in supporting to test drive it beforehand. But how do you know when you have the right niche?

[00:12:34]

EP: Well, you do need to do a lot of homework, and there might be some niches you explore that go nowhere and just accept that that will be part of your research. One way you can do it is to put a few products out there and see which ones stick. That's what Kish and Vanessa – Well, Kish Vasnani and Vanessa Jeswani. They're a married couple. They started Nomad Lane, and it's a business that sprung out of an Etsy store that Vanessa started. She was making a lot of different accessories, and they were both world travelers, and they noticed that when she introduced travel products like a travel bag, those did really well.

He got fired. He had a sales job. It's like a Silicon Valley-fueled startup, and they were very brutal about making your sales numbers. So then he joined her in the business, and they came up with a bag that had a lot of pockets for travel. It could fit a laptop under an airplane seat. They did an Indiegogo campaign. She had a marketing background. They really primed the pump in terms of developing relationships with their networks. So when they did the Indiegogo campaign, they would have a lot of crowd funders. They raised \$2.1 million, and they made the bag. The business got to three million in annual revenue with them and just a few contractors.

Then the pandemic hit, and nobody was traveling. So they made like \$1 million the first three months of 2020. Then it fell off a cliff basically for the rest of the year. They started a Zoom call with the fans of the bag because they had a big following, and they talked to them about travel every week, and like, "What bag would you like, if not a travel bag?" Then they came up with a tote bag. So they introduced something called the Origami Tote with their same signature pockets, and that's their niche. Now, they have both bags, and the travel has come back. So the businesses basically back to where it was. She had a baby along the way. They're still managing to grow it.

I think that's a good example of kind of putting things out there and really listening to the marketplace and also understanding it's not static. You could have a great niche now. But in a year maybe, it's not so great because something else happened. I know, like for instance, we're both living in New Jersey. They're banning the sale of plastic bags in stores now I think as of May. So I was thinking about this. There's probably a lot of small plastic bag manufacturers who now have to change what they sell to target different audiences or make different kinds of bags. But that's the world of business. It's always changing.

[00:15:12]

FT: So without the massive scale of, say, a 50-plus employee or 100-plus, it comes down to pricing, right? At the end of the day, it's like price times units equals revenue. If your units are smaller because you're a smaller business, your pricing probably has to be higher, is my assumption. So what is the strategy around that so that you can really drive the value of what you're delivering?

I'll give you an example. I thought for a while that I wanted to do an online course around how to develop a book, and it just gave me hives. The idea of having to AB test and all that online marketing and trying to find scale and all of the affiliates that I'd have to partner with just to be able to break the certain revenue point that I wanted, seemed like it was not going to be fun. Let's just be honest. So instead, I thought, "All right, what are my strengths?" I like to teach. I like to be in a smaller environment. I like to be in person. I mean, I'm a theater-trained person. I like to be in person. Why put me behind a computer? Put me on a stage or in front of people.

So I took that concept of how to write a book and decide to do a workshop instead and raise the price far more than what I would have charged online, obviously, because it was now an intimate one-on-one high touch experience. A little bit harder to find that ticket buyer, but I found her, and now I know where she hangs out. So the rest of the subsequent workshops were a little bit easier to produce and to find my audience. But the point is if you're smaller, you have to raise your prices. But then it's like how do you drive that value? Where do you find those customers?

[00:17:00]

EP: I think your approach actually works really well in terms of identifying who the ideal customer is who will value your services, and then tailoring it very heavily to them. It's often not such a price-sensitive customer. They want quality. That's where you really can compete and on customization. Because a lot of times, the higher end customers really value custom everything. If you go to their home, the furniture is custom. They work with a personal trainer. It's a custom workout. So that's something where you can really excel, compared to a more scaled up business that's more generic.

But interestingly, Kish and Vanessa doubled the price of their bag. They initially priced it at \$100. Then people said, “For the quality of this bag, it just seems like you're underpricing it,” and they changed it to 200, and it sold even better.

[00:17:51]

FT: There's a psychology there. People think when they pay more for something that it's inherently a better product, a better service.

[00:17:59]

EP: It is very interesting. Part of it is research, understanding what the price points are for the type of thing that you offer. Most entrepreneurs don't really know that. There's an author and expert on pricing named Hermann Simon. He wrote a book called *Confessions of a Pricing Man*. That is a great book. He's got a few books out on pricing. If you want a crash course in the psychology of pricing, you should definitely study his work. But also, just studying the marketplace on your own, looking around, ordering products from competitors, and seeing how they compare to yours.

It's also marketing, how you present it on your website or however you market it. You create a picture in people's mind as to what universe this fits into, and it might really be the same product that's selling elsewhere for a different price or something similar. Think about private label, right? I remember going to a private label factory, and I was shocked because you saw the same coats, and they would put labels on from different stores from the very high-end to like the middle tier, and it was the same coat and was selling for totally different prices. I just couldn't wrap my mind around it.

[00:19:19]

FT: Yeah, my mouth is wide open. I find pricing psychology so fascinating, but also it feels like such a scam because you're wearing a coat that is essentially the same as someone else's. But you may have paid a lot more. I guess the joke is on you. But also, why are we joking about this

stuff? We should all be one price. It's the same material, the same cut. I don't know. It's fascinating.

You mentioned a few profiles of businesses already that seemed to find success relatively quickly. But on average, Elaine, how long does it take for these micro businesses to cross the \$1 million or seven-figure threshold?

[00:19:57]

EP: Well funny, that you ask because there's a survey in the back of the book. I surveyed the entrepreneurs, and on average they get to 1 million in four years. On average, they hire their first employee in four years. I don't know why. That's something I would have to do a deeper study because I surveyed about 50 of the 60. To do a real study, I checked with the market research firm. I need 200. So at some point, I'd love to do a more robust study to look at the reasons why that four-year mark is so important to the future success of the business.

I think for a lot of industries that's the point at which you start really knowing what you're doing. You're building traction. You have a steady base of customers. If you lose some customers, you have enough business coming in to replace it. Then you're starting to put some systems and processes in place to amplify what's working. But I don't know that for sure. This is just my subjective opinion based on the interviews that I've done and what I know of entrepreneurship. I would like to know for sure exactly why that is.

But it does make an argument for sticking with things and realizing that if it didn't go that well the first year, that's kind of an experiment year. Some people did get to one million in one year, but a lot of them don't. They take a while to learn the ropes of their business.

[00:21:13]

FT: Right, and there are external factors you can't even predict like a pandemic. We talked about high-end personal services as being on this list of tiny businesses that are making big money right now. Can you share some of the other industries or sectors, just for people who are listening and wondering, "Where could I potentially live in this world?"

[00:21:31]

EP: Well, one of the really interesting ones, we've mentioned e-commerce. But business to business e-commerce is a really hot niche. In the back of the book, there's an appendix where I subtracted average revenue from average payroll. I mean, average payroll from average revenue for every industry code in America, with payroll being the biggest cost in many businesses, sometimes real estate is, to see how much money is left over. We organize them according to who had the highest amount. Business to business e-commerce was one that continuously showed up across 0 to 4 employees, 5 to 9, and 10 to 19 employees.

These are not so sexy, as far as telling stories at cocktail parties. But they make really great money and allow for a great lifestyle. One of the businesses is called FlexiblePouches. A man named Apurva Batra who's 29, he lives in Texas. He was a former Chevron engineer. He was looking for a business that would allow him to indulge in his passion to travel around the world, which he does, and it sells the plastic bags inside of cereal boxes and pharmaceuticals. He automated a lot, and he started marketing this at trade shows. But then he realized that the big players in this industry like Kellogg already had their suppliers who could do enormous volumes of plastic bags. But the small and midsize businesses, the up and coming granola company, they didn't have someone to make the plastic bag. So he put it online. They order online. It's heavily automated. It's about \$3 million a year. He was a solo entrepreneur at over one million. Then he hired about, I think, two employees currently. That's an example of b2b e-commerce.

Another one that's really interesting to me is manufacturing because you can now be a manufacturer from your living room. If you have a great invention, thanks to things like Alibaba, we can easily find people to help you make a prototype. There are a zillion factories in China and increasingly local factories that can help you. One fellow, Jeffrey Stern, he started a business that makes the little voice boxes inside of the bears at Build-A-Bear Workshop and those greeting cards that you open, and it's Elvis Presley singing. That's his whole business. He's his 60s. It's about a \$4 million business every year, and he's got two contractors.

[00:24:02]

FT: Do you love to watch Shark Tank? I'm sure.

[00:24:04]

EP: I do watch it sometimes. Yeah.

[00:24:06]

FT: Yeah. I used to be a bigger watcher years ago. I sort of have fallen off the bandwagon. But I remember there was an entrepreneur who sold beard wax, which I'm not obviously the target audience for this. But I thought it was fascinating, that hot category. He sold it initially on Etsy. His secret, besides making a fantastic product, is that he learned the key search words pretty quickly. Of course, those changed. That search algorithm changes from time to time, but that was a real important aspect of his R&D and research was to always optimize for that because he's like – That we think has driven a lot of our traffic and a lot of the eyeballs to our product, and probably we can credit that for so much of our revenue.

I don't know if you've come across that in your research at all, but also like leveraging the search engines and the SEO. I have a friend who doubled down on SEO and nothing else. Her business doubled in revenue, simply because she became more searchable and discoverable.

[00:25:14]

EP: That makes a lot of sense. One of the companies, they were actually a \$5 million business with just two people when I was just doing like the million dollar and the non-employer businesses, and now they've continued to grow. But they're companies called PAVOI, and they sell inexpensive gold jewelry on Amazon like big gold hoop earrings and things like that. Both of the partners, their fathers were brick and mortar jewelry store owners, but they started an online business together, and they hired a data scientist. That was one of the first hires to optimize their listings because it's so competitive within Amazon. You have to pay, in some cases, to get higher up in Amazon with advertising. So they try to do it organically. I was very interested that that was one of their first hire is a data scientist.

[00:26:05]

FT: Yeah. But, I mean, if e-commerce is your forte, and that's the sector you're going to go into, which by the way is a very – It's like number one on the list of profitable tiny businesses. It makes a lot of sense.

[00:26:18]

EP: Wholesaling is another one and doing all kinds of wholesalers on these lists. I thought that was interesting. That's kind of what Apurva Batra is doing that he's also combined it with business to business e-commerce. Transportation was kind of an interesting one. One of the women, Janine Iannarelli, runs Par Avion, which is a broker of used private jets, speaking of the high-end client. But when you think about it, what does a jet cost? Even if your commission is a tiny percentage, you're talking about really big commissions, and she had been in the aviation industry and kind of absorbed it into her DNA about airplanes.

What was so interesting about her was right when the pandemic hit, I spoke to her that how she was coping. She was moving all the planes closer to her in Texas. She was very proactive because she wanted to kind of burst out of the starting gate as soon as the pandemic was over to sell them. That's what she did, of course. But it shows you a little bit of the mindset of these folks. They're always staying a step ahead of what's going on and thinking of – She saw opportunity when other people were panicking.

[00:27:26]

FT: You're able to stay more nimble as you write in your book. When you are a leaner, smaller business, you can steer your ship backwards, forwards, left, right, on the go in times of crisis much more feasibly than, let's be honest, like a multinational conglomerate.

[00:27:45]

EP: Oh, for sure, for sure. You can try a lot of different things. One of the categories is what I call the souped up service business, and this would be probably closer to what you and I run.

Jenna Kutcher is a photographer by trade. She had worked at Target and then she became a wedding photographer, found that she had a lot of talent for it, and she started developing online courses. But that isn't even the whole business. She then started putting up her photographs of her family on an Instagram feed, and they really took off. She writes these little vignettes about family life and her business. Now, it has, I think, five employees, and it's a multimillion dollar business, and she's got a lot of time to spend with her family, which was her goal in the first place. So she's added on to the service element. She rarely would shoot a wedding now, maybe for a friend. But it all emanated from that.

I think for a lot of people – People always ask about how do I get out of trading time for dollars. There are some good examples of that that I came across where I think you need to fit it to your industry. Certain things will fly in an industry and certain things won't, but I loved her story because she just found a way. Most photographers don't make tons of money, unless they're shooting the cover of Vogue. But there are other things you can do with that knowledge.

[00:29:09]

FT: Absolutely. Well, I'll leave everyone to get the rest from your book. *Tiny Business, Big Money*. Elaine Pofeldt, so great to reconnect. Congratulations, and we'll have you back again. I'm sure.

[00:29:21]

EP: Thank you so much. It's been a pleasure.

[END OF INTERVIEW]

[00:29:26]

FT: Thanks so much to Elaine for joining us. Her book again is called *Tiny Business, Big Money*, available everywhere. Learn more about Elaine at elainepofeldt.com. We have all those links in our show notes. Be sure to come back here on Friday when I'm answering your money questions, and it's not too late to send some of those in. You can go through Instagram. You can

text me at 415-942-5002. As always, you can go to the So Money podcast website and send me your question directly there. Thanks for tuning in, and I hope your day is So Money.

[END]