

EPISODE 586

[INTRODUCTION]

[0:00:34.6]

FT: What if I told you, you could keep your nine to five and become an entrepreneur? Welcome to So Money everyone. Isn't that so money? I'm your host Farnoosh Torabi, our guest today says, being a business owner does not have to be an all or nothing proposition. Patrick McGinnis is here to offer advice and how to be a part time entrepreneur.

He's a venture capitalist, an author of the international bestseller, *The 10% Entrepreneur: Live Your Startup Dream Without Quitting Your Day Job*, and Patrick practices what he preaches. He is a 10% entrepreneur himself and outside his day job, he has built a diverse and global portfolio of investments including top tech companies. I know a lot of you want to learn more about how to gradually become your own boss, so let's just jump right in.

Here is Patrick McGinnis.

[INTERVIEW]

[0:01:23.9]

FT: Patrick McGinnis, welcome to So Money, *The 10% Entrepreneur*, such a breath of fresh air, thank you for being on the show.

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PM: Thanks for having me Farnoosh.

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FT: I say that because as you state in your book, when we think of entrepreneurship, I think of the Gary Vaynerchuck's School of Entrepreneurship and so you may know what I'm talking about. Gary's very intense, he's actually said that there's a lot of phony entrepreneurs out there unless you're thinking and doing and being this business person all day every day.

You're not really an entrepreneur with a capital E and you are — I think what you're trying to do is really noble, you're trying to say to everybody, hey, we can all have a piece of this pie, you can all experiment with this and the best part is, you don't know where it could take you but in the meantime, you get to keep your health benefits and your paycheck.

[0:02:14.7]

PM: Exactly. I think there has been this — I always think of Mark Cuban who I love by the way so Mark Cuban, if you're listening, I'm sending you all my love. But this idea that people go on Shark Tank and they're told, unless you are living on the side of the road on the box, eating ramen for every meal and suffering, you're not an entrepreneur.

I think that's a very dated way of thinking about entrepreneurship and it's a very exclusive way that it basically excludes a lot of people who would be great entrepreneurs but maybe aren't in the life circumstances to become entrepreneurs today. What I want to give is give all of those people on ramps to be able to do it.

[0:02:53.0]

FT: You may not have the money, not just the timing might not be right but you might not have the money in the bank and yes, many entrepreneurs, bootstrap and start with nothing and they get loans but like I said, if you have a family, there's something to be said about having your benefits kick in, continuously kick in while you're tweaking away at this side project.

Martha Stewart was working on Wall Street while she was catering parties on the weekends and you've got a lot of great stories in this book about people like that. The college grad who started his own lobster roll empire while working like most college students working a job that they get when they come out of school, not their dream job but a job that pays the bills.

You've got a mom who had a side project of designing and selling children's clothing which has now grown to be a huge hit. Is the goal to then become a 100% entrepreneur that you start 10% but really you're pushing people to really go for the full benefits?

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PM: Not necessarily and in fact, this is really about a couple of different ways of approaching entrepreneurship. I have five different types of 10% entrepreneurs. One of which is the founder, the example you gave of that person who has a great idea, they started on the side because they can't afford to go full time but also because they want to test that idea before jumping in full time.

Recognizing that by doing something on the side first, they can actually de-risk the whole thing and have a better chance of succeeding. But another type of sort of 10% entrepreneur is somebody who will never leave their full time job but will invest in new companies or be an adviser where they invest their time for ownership in new companies.

They'll do that with lots of different companies. For example, I have invested in over 20 different ventures over the last six years. I have a day job, I'm not looking to leave that day job but I've used entrepreneurial activities investing, advising in startups in order to create a diversified portfolio of ownership positions and exciting companies that teach me new things to get me up side.

Maybe I'll become a full time entrepreneur someday but I haven't found that thing yet that really has convinced me that I want to do that.

[0:05:00.3]

FT: You know, entrepreneurship has been around since the dawn of time, we can thank entrepreneurs for giving us electricity, for giving us the wheel, for giving us the iPhone but it seems like right now and I'm sure you're experienced this, probably why you wrote the book that

there is more and more of this hunger, this appetite for learning how to become an entrepreneur, for living the entrepreneurial lifestyle. Is it a phase?

Where we going to be in 20 years, what's going to be the new conversation? Are we going to go back to wanting and missing the nine to five, having a life that is a little bit more formatted or a little more predictable, working at a company? What do you think? How would you describe where we're at right now in this entrepreneurial craze?

[0:05:41.8]

PM: Yeah, what's happened and we have the secular trends, try and remember one, it's that technology has made it really cheap to start a company. You and I could come up with an idea right now, have a website up, have a company form, have the thing in business, promote it on social media, all for probably less than \$100.

Those types of things, when I started my crew as a venture capitalist, 15, 20 years ago, that caused hundreds of thousands of dollars. The barriers to entry for entrepreneurship have really fallen and as a result, getting financing and getting people to invest in your company is far easier than the past.

You don't need to get on a plane to Silicon Valley and get some venture capitalist to write you a million dollar check, you can pass the hat among your friends, go to a local angel investment group, there's all this things that are happening.

As a result, anybody can really be an entrepreneur and you see that — I saw some stats recently that 40% of millennials have side hustles, 30% of Americans in general, 25% of brits. People are doing things on the side and not all of those are ventures we have an ownership stake, they may be for example driving for Uber or something that's more about the gig economy but I think he take away here and what I see is that there are a lot of people who are looking for opportunities to do things outside of their day jobs because they recognize that their day job isn't stable.

Because maybe they're afraid of being sort of outsourced or downsized but also because they see opportunity all around them and they see people who they know with startup businesses that are actually making real money in creating real opportunity on the side.

What I think is going to change and where I really want to play in, the reason that I wrote this book is that I watched all this people doing this things and I thought to myself, this is great, people need to focus, they need to do things that they can be successful at and they need to think like owners.

Driving for Uber is fine but you never own anything, the day you stop driving is the day you never get another check from Uber. I want people to start things that they can own, that they can grow and that they can eventually sell.

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FT: What are the trends in those ways? What are you seeing people do? Are we in a creative economy, are we in an economy that is largely all about coming up with a service that can let people do more in less time?

[0:07:57.1]

PM: Yeah. I think it's all of the above and what I see people doing more and more is in with the 10% approach is people are saying okay, I have a skill set and that skill set could be anything, it could be creative skill set, I can design clothing or I can paint a mural. It could also be something like I know how to build a website or I know how to come up with a marketing plan.

What they recognize is yeah, they got this day job and they put in their 40, 50, whatever number of hours a week but that's not all they are. People are no longer defined by what their day job is and so they can take those skills, those very valuable skills and contribute those to new entrepreneurs with new companies who could never afford to hire them full time.

For example, there is a great example in the book of a woman named Beth Ferrera and Beth had been the COO of a company called Etsy that I'm sure many people know and see, lots of number and entrepreneurs start there right?

Beth is super experienced, knows operations for startups really well and on the side, while she was working at Etsy, she was trading her time as an adviser, sitting and advising boards of startups to become an owner and shares like companies like Birch box and so I think that's what we're going to see more of is people taking their skills with them.

And instead of maybe looking to make a little bit of money on the side, thinking how can I be an owner of something that will grow? How can I trade my time in all kinds of different services, anything from a service that saves you money to some sort of new business that is the plan, eCommerce.

At the end of the day, we can all avail ourselves of the internet to get services cheaply so we can use freelancers or international talent if we need to hire people to help us build something. We can also sell to anybody in the world and I think that's where business is going to continue to go.

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FT: How do you know when it's a good time to transition to a 20% entrepreneur, a 100% entrepreneur you know what I mean? You've got this side — not the side hustle but the side kind of project that's percolating, maybe making you a profit margin. When do you recommend people start to look at quitting the day job?

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PM: Let me give you the example of the poly pow who we mentioned a bit earlier who is the fashion designer. She ran the gamut so she started out and she was working designing bed spreads for one of this companies that — you know those companies that make bedspreads that are branded with polo and Ms. Claiborne or whatever.

That's what she did, she would help design this bedspreads and then she had her son and she was at home on maternity leave and her mom started setting her clothes from India, she dressed up her son in this baby clothes and everybody loved them.

She thought, this is kind of interesting, she invested \$5,000, got some samples made, took them to a trade show, sold out at her first trade show and was basically already in business.

She got this really quick surge of affirmation for her product and she also is the product. She's from India originally so she can kind of really authentically sell this product but she couldn't leave her job, she started running it on nights and weekends, out of her apartment, you know, figuring out how to get this thing to scale, setting up a website on the cheap, all this sorts of things, didn't raise any money, just kind of bootstrapped it as it grew.

What happened was eventually, one of her clothing items was featured in people magazine and all of a sudden demand spiked, she started to build a name for herself. She went to her employer and said listen, I have this thing I'm working on, I don't want to go full time, I think it's great but I love working here as well, could we do 50/50?

I'll work two and a half days for you, two and a half days on my idea. You I know, it's hard to find great people and this employer said no problem, we'd love to keep you, no problem. She theoretically could have maybe gone full time but she wanted to have that security, she did that for five years and then at the end of the fifth year, she looked at her numbers, she looked at the growth trajectory, she looked at the money she was making and she determined that she would be able to run this full time.

The take away is, number one, it doesn't have to be all or nothing, doesn't have to be 10% or 100%, it can be 50/50 or 60/40. The second thing is, I really encourage people not to leave their day job until A, they can afford to live as they want or B, they can find for example, if you can't afford to live as you want and you can't get financing or something like that.

Find a partner who can help you out but there is really great ways that you can scale while maintaining control of everything around you.

[0:12:31.9]

FT: Patrick, you're very familiar with investing in other businesses and often on the show when we have entrepreneurs who have come to a point in their business where they're deciding, should I take money from an investor, should I not?

Comes sometimes with strings attached and responsibilities you may not want. How would you advise an entrepreneur on how to decide how much or whether to even take money from an investor?

[0:12:58.9]

PM: Yeah, this is such an important question, I'm glad you asked it because I'm an investor right? I've invested in my career in 20, 30 companies and so you would think I would say to you, well yeah, you know, raising money is the best thing ever. I will tell you with complete honesty as much as I love many of my colleagues in the industry that I encourage people to wait as long as they can to raise money.

The reason why and this goes back to something that my friend Beth Ferrera who is at Etsy told me and I never forgot when she said this to me, she said, fund raising isn't about money, it's about control. It's so true, the minute you raise money from somebody else, you now have new people in your company, they may have rights that they can use to affect how you run your business and you have a boss.

That can be a very good thing because it can bring discipline to the company, it can bring new ideas and the capital can be invested into growth. But often times, if you're not quite ready, if you don't have quite the right partner, it can create a lot of headaches for you as an entrepreneur.

What I encourage people to do is wait as long as possible so that they have as much leverage as possible going into a negotiation, they're in the best position they can be and then when they do raise money, that they find people who are experienced, that they talk to people this person who has invested in the past and they look to sell a minority stake that doesn't have a ton of

rights attached to it so that they don't have somebody who can all of a sudden come into the company, change management, fire them, cause them to sell the company, all kinds of things that if you don't have a good lawyer or if you don't read your contract, could end up in the deal that you signed.

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FT: We've had a number of guest on this show, talk about how they have been ousted from their very companies they started which I mean, there you go, it happens. It's never — although they look back and they're like, it was the best thing that ever happened to me, at the time, you're pretty devastated.

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PM: Definitely and I've been on the other side of that conversation where say you have a startup and the founder you know, did very well on the early days and then you came in and invested millions of dollars and the company isn't doing well, what are you going to do?

If you have a fund and you have investors and you have a fiduciary responsibility, you're going to make changes to try to save that investment. Often times, that will work out but it doesn't feel good. The founder goes through a lot of heartache and even if they end up making money in the end, many times and I'm sure these people leave fulcrum with the past on your shoulder and said.

They will not make that mistake again. Next time around, they're going to do it totally differently.

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FT: We talk often about financial philosophies on this show, you've shared a lot already about how to approach your business in the financial way, make sure you have runway, don't quit your day job, be smart, in your personal life, what's your money mantra?

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PM: I'm from the state of Maine, a place where people always lived within their means. What I really believe is never live above your means, I'm really careful. I have a spreadsheet that's updated on a monthly basis of how much money I have, what's invested where, what do I expect to look like and I only invest and I only spend what I think is a reasonable amount, keeping lots of cushion.

That way I know that I will never get into a situation where I'm in trouble. In fact, had I not done that in the 2008 financial crisis, I was working on Wall Street. My company blew up, I lost my bonus, it was disaster. Had I not lived by that mantra, I would have been in big trouble.

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FT: Money keeps you out of trouble, I like that, it's a good mantra. What's a failure you experienced? A financial failure, something that you learned a great deal from that still haunts you but in a good way?

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PM: Yeah, it's like a friendly ghost right?

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FT: Right.

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PM: Well, you know, the whole reason I came up with this and I told you just now that I was working during the financial crisis of 2008 at AIG which was the biggest flop, I mean, it was a trillion dollar company that was nationalized, we lost our bonuses and I actually own stock in AIG which I remember buying it and we had this employee stock discount program where you got a 15% discount if you bought it.

I thought to myself, what a great arbitrage it was and you know, I was so pleased with myself when I would buy that stock and then in the space of a couple of days, it fell 97% and was basically worthless.

What I learned from that experience was, you must diversify. I was working at a company, I owned a bunch of the shares, the company blew up, the shares went to zero, I had no diversification and thank god I had cash in the bank, I was sort of having on cash.

Had I not done that, I would have been in bad shape, in fact, some of the long standing employees of AIG lost everything and so as a result, that's what made me think, I've got to build a portfolio of things my 10% and that's why I got started.

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FT: Sounds like you recovered pretty quickly.

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PM: Well it sounds that way but no, it's a long process. In fact, now I have this space of time right? it's been seven, eight, nine years but in fact, when that happened, not only did it hit me sort of from a career perspective and you know, I sort of felt like my resume was blown up and that I had lost a lot of money but it hit me emotionally and I felt very — I felt like the world, I always thought I kind of had control, I was like, I went to Harvard business school, what could go wrong right? My career will always be fine.

Even if everything else goes downhill. I realized that I had very little control and it was very frightening to me. I actually became very — I would say, very depressed and nervous for a while but over time, What I found was that taking control and building something for myself actually was the best way to feel a lot better about the world around me.

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FT: Is there anyone that goes to Harvard business school and ultimately fails? Yes, failure's going to be a part of your journey but are there any classmates where you're like man, that person really didn't do much with him or herself.

[0:18:59.6]

PM: Well, you know, I would say, I have a couple of answers. Well first of all, some people end up in jail, Jeffrey's killing right?

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FT: Well sure. But he had a good ride for a while you know?

[0:19:10.3]

PM: Yeah, he did. I would say, first of all, what I love about HPS is I think there is an external view that a lot of people are super arrogant and whatever. People tend to be much more down to earth and I think people do recognize that there's lots of different ways to fail, you may look good on paper and have a lot of money in the bank but may have miserable relationships or vice versa.

Success is defined by each one of us and stuff like that. I know that sounds a little bit metaphysical but it is true. I would say I have been surprised how many people I know were really, their careers were violently up ended by the changes we've seen across America in the last 10 years and across the world.

Some of those people don't recover and those are the people that never come to reunion. It's really hard to show up to that 10 year reunion where you have classmates who are like — have absolutely destroyed it and there are people that have done I think less than they ever thought they would.

Is anybody truly desuetude, I would hope not but there are definitely people who I think not so much that they failed in an adjunct sense but they really failed what they thought they could achieve.

[0:20:17.4]

FT: Risen from failure, having failed is not the failure, it's what you do after that you know? That defines you.

[0:20:25.6]

PM: Definitely, under dogs, I think what's really hard for people and in the MBA world, it's not just Harvard, it's any MBA program, a lot of people, they got into that MBA program because they were successful. Think about not just MBA's but any career path.

You move ahead because you're successful. I don't know one single person and I know a lot of people who's had a clear path where there's been not — when they haven't had one bad thing go wrong. Everybody, whether it's today, tomorrow, in 10 years down the line, they'll have themselves tested and it's that moment you figure out what you're made out of.

It's your chance to rise to the occasion and if you can do it, everything from that point forward, you appreciate so much more.

[0:21:06.3]

FT: Some people don't even go to business school or they go and they drop out which begs the question, if you're going to be an entrepreneur, be an entrepreneur, why go to school? That is definitely a school of thought.

[0:21:17.6]

PM: Definitely, MBA is a great thing, I really enjoyed it, it's certainly not for everybody, it's certainly a lot of requirement. I would say for me, it gave me the network of context and the approaches that have helped me to think about the things that I've done.

Some people will not, you know, return to their college to be — you could start out at 16 you know, peddling things in the street and move up to be CEO of a major company. That's certainly not unprecedented at all. I think what it's more about is whether you go do an MBA, whether you go to conservatory and study classical piano or whether you don't finish high school.

It's about finding things that you want to work hard at, finding things that you're good at, combining the things you enjoy and then running at it and making it happen.

[0:22:01.4]

FT: What's a habit that you practice Patrick? A financial habit that helps you with your financial wellbeing?

[0:22:09.0]

PM: For me, it's really about diversification. I have some investments that are in very high risk startups, I have some investments that are in companies that are far more mature. I have some investments that are in real estate which is a far less risky asset.

I have some in the stock market and some that are in cash. What I've tried to do is, if you look at the average family office, a wealthy family office, they put about 10% of their investments in higher risk types of things. That is kind of how I think about my 10%.

I am also — I would never invest more in the startups and the venture capital kind of stuff that I can afford to lose but it gives me sort of all the upside that I get from it that makes it worth it.

[0:22:50.5]

FT: All right, Patrick, are you ready for some So Money fill in the blanks? It's kind of a ritual around here. I start a sentence and then you finish it really fast.

[0:22:58.9]

PM: Okay, I'm ready.

[0:22:59.4]

FT: Okay, if I won the lottery tomorrow, the first thing I would do is?

[0:23:03.7]

PM: Give my parents a lake house.

[0:23:06.7]

FT: Nice, are they set for retirement or are they what?

[0:23:11.8]

PM: Yeah, they are. My father worked for the US government which has got a great pension program, they're very good but you know, I would like them to have access to the water in the summer times. Maybe I'll get them one Sunday anyway but that would be my first thing.

[0:23:25.0]

FT: One thing I spend on that makes my life easier or better is?

[0:23:28.8]

PM: Technology. Things that make my life more efficient. Whether it's an iPhone or anything like that.

[0:23:33.9]

FT: The one thing I splurge on like a big purchase, maybe you do it regularly, once a year, every month?

[0:23:41.9]

PM: Yeah, luxury travel. I like to go crazy places but I like to go there with some comfort you know? That's important.

[0:23:47.9]

FT: Traveling 30,000 feet above the air with comfort, that is a luxury these days apparently, you been paying attention to the headlines, traveling this days, I don't know. It's scary man.

[0:24:01.0]

PM: Behave yourself everybody, behave yourself.

[0:24:02.8]

FT: Behave yourselves everybody. Yeah. One thing I wish I had learned about money growing up is?

[0:24:09.1]

PM: That if you invest in real estate, all that debt makes your equity sort of grow faster, it's the idea of leveraging yourself.

[0:24:15.7]

FT: Yeah, it's *Rich Dad, Poor Dad*, Robert Kiyosaki's whole platform, he's been on the show. Last but not least. I'm Patrick McGinnis, I'm the 10% entrepreneur and I'm So Money because?

[0:24:29.8]

PM: Because I'm doing things that I love without having to quit my day job.

[0:24:34.4]

FT: Don't we all wish we could do that? We can if we read your book. Patrick, thank you so much and congratulations, it's been a year since the book has come out and we wish you all the more success.

[0:24:48.4]

PM: Thank you so much, congratulations, it's a lot of fun.

[END]