E17 - Ryan Rouse- How To Profitably Acquire Customers At Scale Transcript

Ryan Moran [00:00:02]
This is the Road to $1 Million and I'm Ryan Daniel Moran. Hey Capitalists. Today I'm going to be sharing with you an interview that I recorded with Ryan Rouse. Ryan is the co-founder of Factor 75. He exited a little bit early but they were later acquired by Hello Fresh for reportedly $277 million dollars. And Ryan was the guy who helped get it off the ground, who got it to the run rate that made it attractive enough to be acquired by a really big company. He built those systems, those marketing processes to get a company off the ground.

Ryan Moran [00:00:37]
And I know that this is a struggle point for a lot of entrepreneurs who are in the grind of their business. So I asked Ryan to come into The One Percent and share what he had learned and how he applies his skillsets to other businesses that he advises and helps them acquire customers profitably at scale. He also took a bunch of questions from our community and so we edited this down into an abridged version of the full conversation.

Ryan Moran [00:01:06]
By the way, you can always come to our live trainings that we do inside of The One Percent if you're a member. If you're not, go to Capitalism.com/one to join this community of entrepreneurs building businesses and investing the profits. Alright, let's go hang out with Ryan Rouse.

Ryan Moran [00:01:25]
Good evening everybody. Welcome to Wine with Wyan. I'm joined by Ryan Rouse today. What's up man? Good to see you. I don't want to misrepresent your background, so you can tell me if I say anything that's going to get me in legal trouble but my understanding is you were the cofounder of Factor 75 and I believe that y'all got to the valuation that you had, which was a very impressive valuation, because of your aggressiveness with customer acquisition.

Ryan Rouse [00:01:50]
I would say acquisition and retention but yeah, online ... We could only drive online growth, so acquisition and retention, yeah.

Ryan Moran [00:01:57]

So, I have 1000 questions about this because this is actually the pain point that many of my people got, which is either they know one channel like Amazon or Facebook ads to Shopify or affiliate marketing. They got one channel down but when you squeeze margins in something like a food brand, which I mean, you had ready to go meals which have this much margin.

Ryan Rouse [00:02:28]
Slightly more than restaurants.

Ryan Moran [00:02:30]
Yeah, which is not high. You don't have a whole lot to work with. So, I've got 1000 questions about this but first I know you weren't just involved in Factor 75, you also partner with ecommerce brands, you advise them. What exactly do you help them do?

Ryan Rouse [00:02:49]
Yeah, so the short version of my background, I had a very traditional first portion of my career in finance at Merrill Lynch most of the time.

Ryan Moran [00:02:59]
I forgot that about you.

Ryan Rouse [00:03:00]
I did. So, I studied finance and then took a finance job and I spent 12 years, 8 of which at Merrill Lynch, but I got to start a business inside Merrill Lynch. So my first business I started was inside Merrill Lynch, which there's so many things that are different, so many things the same about actually starting a business. Different, their money, their resources, I'm getting ...

Ryan Moran [00:03:22]
No risks.

Ryan Rouse [00:03:23]
Yeah, no risks. But the same thing is small number of resources, a ton of shit to do. So, high pace of action here trying to grow something with few other people. Me and one other person trying to grow a business. Then my buddy from college started Factor, he asked me to come out as a cofounder, so I spent 5 years running the day to day at Factor and running marketing.

Ryan Rouse [00:03:48]

When I left the day to day, I'd been mostly consulting, mostly consulting with better for you consumer packaged goods brands, and mostly consulting around ecommerce and growth of ecommerce.

Ryan Moran [00:03:59]
And all snack brands have terrible margins. Great valuations, terrible margins.

Ryan Rouse [00:04:05]
That's right.

Ryan Moran [00:04:06]
So, Ryan, snack brands don't have margin, and even if they do have good margins, it's like $2 per unit. How do you get that ... How do you work with that to be able to actually build something that has a lot of customers? This is the big mystery question.

Ryan Rouse [00:04:26]
Yeah, well, listen, there's a lot of different ways to grow the business. I think you have to know the model. I think you have to model it out. I think most times when I step into businesses, and it's even ... You're talking large businesses, $40-50 million dollars, large relative to being nothing, they haven't modeled out what it looks like to the cash flow you're going to need in order to grow direct to consumer.

Ryan Moran [00:04:54]
Say again what you mean.

Ryan Rouse [00:04:55]
They haven't modeled out what an estimated acquisition cost might look like, and then how that flows through from a cash flow perspective.

Ryan Moran [00:05:03]
You mean they haven't modeled out how much it costs to acquire a customer on average and then modeled out how that leads to cash flow, is that what you're saying?

Ryan Rouse [00:05:12]
The retention numbers, yeah, the lifetime revenue looks like and when that comes in. So not only how much but when, and understand when you're going to get paid back from it.

Ryan Moran [00:05:22]

So, on a snack brand, the brand that I'm imagining is ... Is it Way Better? Is that a brand, a chip brand?

Ryan Rouse [00:05:29]
Don't know.

Ryan Moran [00:05:29]
Okay. Beanitos, do you know? Okay, so Beanitos has a $5, $6 dollar bag of chips that are better for you and they're mostly in retail, but if they're in retail they may have $3 dollars that's going to the retailer, $3 that they have. If they're lucky, they're making $1 dollar a bag. To model that out, it means that you're saying, okay, what do they have to spend to get a customer and how many times does that customer need to go back to Whole Foods and buy another bag of Beanitos in order for Whole Foods to know the big order. This sounds hard.

Ryan Rouse [00:06:14]
So, what I'm talking about is driving ecommerce business. Retail is not that wild. You're not going to have that type of information. So, retail would be a different category altogether, but you're talking about Beanitos and each is ... Selling each is at retail, an individual bag. The short answer to what you're asking is you have to bundle ... And this is oversimplifying but it's actually also not. Bundle, get as much money out of that first order online as you possibly can.

Ryan Rouse [00:06:42]
So, if you're selling individual bags of anything or even 2 packs or 3 packs in retail, you can't sell those online and expect to make money. You can't just set your delivery threshold to $50 dollars and expect them to ... A customer to automatically fill up their cart that much. You have to start ... I would recommend starting with bundles that are only $50 dollars or $60 dollars. Don't try and sell that $12 dollar thing online.

Ryan Moran [00:07:09]
Got it. So, Damien Law, if you're watching right now, we've been talking in our private messages about what you need to do to get those margins up and this is what we've talked about. And we did not prime Ryan for this. So, Ryan is one of the best in the world at this and he's telling you to bundle your stuff because if you do that, what you're saying is, Ryan, I assume that at that point you're getting ... You might have $25 dollars in margin on a $50 dollar customer there.

Ryan Moran [00:07:37]

That means that you would spend what in order to try and acquire that customer? I know that's a board question, but I want to understand how you think about this. When you are going into a business or starting your own business, how aggressive are you trying to be in order to acquire that customer?

Ryan Rouse [00:07:56]
I would first ask the business what they're asking for from the direct to consumer channel. So, if it's ... What does that channel need to do for you? If it's a new brand that has a direct to consumer only then it needs to grow the business. So, that's a very different strategy than an existing brand that has retail distribution, Amazon.com distribution, and now direct to consumer because direct to consumer for that brand might be, you know what, we just want to gather customers and we're fine breaking even on those customers. We don't want to make any money.

Ryan Rouse [00:08:27]
So, I would be very aggressive with that. You say you don't have to make money on it, but let's just assume that we're talking about businesses that sort of need that channel to be profitable at some point over time.

Ryan Moran [00:08:38]
At some point.

Ryan Rouse [00:08:39]
Then the answer to put ... I would first definitely ... The more you can get them to buy, not only the more in money but the more different assortment of products you can get, I would be hyper, hyper pig-headed discipline focused on getting the most in that first quarter as humanly possible for a couple of reasons.

Ryan Rouse [00:09:04]
1, the revenue that comes in so that you can actually afford it. 2, the more of your skews that they try, the more of your products that they try, the more likelihood that they will like one of them and that you will get them to come back.

Ryan Moran [00:09:18]
So, I'm imagining variety packs. Is that what you mean?

Ryan Rouse [00:09:20]
100%.

Ryan Moran [00:09:20]
So, if we're staying with a snack brand, in a snack brand your primary model for acquiring customers would be trying to get a first time purchaser to buy a variety pack. Is that right?

Ryan Rouse [00:09:32]
Yes.

Ryan Moran [00:09:33]
So, that's your opening move, something is not to try and get them to buy one thing but actually sample something and variety packs often do have a higher premium as well. So you would get them to buy a bundle of a variety pack and then follow up with that customer to try to get them to buy more of their favorite flavors. That makes sense to me. So, when you're modeling this out, how are you ... In terms of what ... Are you planning to spend 100% of the lifetime customer value for 90 days, 180 days, a year? I think Proactiv does 2 years, or 18 months or something like that. They'll spend 18 months of profit in order to acquire a customer, which is crazy but that's also why they win. So, how much do you turn up that dial?

Ryan Rouse [00:10:27]
So, that's where we get back to the first statement which is not what people want to hear but it is the reality of it. You have to know how much cash you have in the bank, and then you have to model it out.

Ryan Moran [00:10:38]
That's fairly important. You need to know how much money you have in ... Ladies and gentlemen, you need to know how much money you have in the bank. This is an important metric to know.

Ryan Rouse [00:10:45]
I mean, the number ... You see a ton of businesses too, the number of times that you'll step into a brand and they have run a lot of paid media to direct to consumer and they have no idea what their retention metrics are, when that money is coming in, maybe don't even know their gross margin or contribution margin. And if you don't know those ... So, customer lifetime value is not a revenue metric. It's a gross margin and a minimum metric and it's really a contribution margin metric. What are they worth to you from a contribution margin perspective over time?

Ryan Rouse [00:11:18]

So, those are a lot of numbers and I'm not trying to talk over anyone's head but if you don't know when ... How much a customer is bringing to you and when the timeline is they're bringing it to you, you shouldn't be running media at scale at all. You shouldn't even be trying. So, knowing what those are is going to dictate ... Then that combined with what cash you have in the bank with the financial model is the only way you can determine, should we go 3 months in the red? Should we go 4 months in the red? Should we go big T months in the red? But if you don't know that model, you can't possibly make that determination.

Ryan Moran [00:11:51]
I want to dive into this more because Dane Fuller, if you are still watching you should come back into the green room and come live because this is for you. But we have some students who are watching food brands or snack brands and they're bootstrapping, or they've got $100K in funding and they're playing with this, like should I raise more money so that I can buy more customers or do I continue to bootstrap it?

Ryan Moran [00:12:20]
And when you say ... When you're talking about that, it is really about how ... I assume how wide you are doing your marketing because you can go pretty narrow and targeted and keep your profit margins tight and get to a $2 million dollar top line, sometimes even a $5 million dollar top line but you're not going to build an 8-figure brand or a $40 or $50 million dollar brand operating on trying to turn a ... Your customer lifetime value of 30 days and only spend that on customer acquisition. You're going to have to spend 3 months, 6 months of that customer value in order to get a wide enough net to acquire those customers. Am I making any assumptions that are not true?

Ryan Rouse [00:13:04]
I would say you don't ... 3 months is probably reasonable ... Many brands can get to a 3 months pay back that you can spend what they'll give you in 3 months and reasonably scale paid media. But yes, an 8-figure brand, it depends what other lines of distribution you have too. I think that the days of being able to exclusively grow ... I mean, there were very few years where you could exclusively grow a brand just on your own dot com on direct to consumer or just on Amazon.com. There was a small window of time where, yes, that worked. Those were not huge, humongous brands.

Ryan Moran [00:13:39]
So, what is it now?

Ryan Rouse [00:13:41]

It's omnichannel. I mean, omnichannel is your goal.

Ryan Moran [00:13:44]
You mean everywhere?

Ryan Rouse [00:13:45]
Yes. That's retail, that's ... That's retail. That's retail.com. That's third party marketplace. The biggest opportunity out there I believe right now is third party marketplaces. Fried.com, Gopuff, [INAUDIBLE 00:13:58], Chewy. They're doing marketing, they're heavy in acquisition mode to get people onto their platform. They're doing marketing for you. You're putting banner ads on their site. It's simplified marketing.

Ryan Moran [00:14:11]
That makes total sense.

Ryan Rouse [00:14:12]
So, all those places, it's direct to consumer. And again, what is the goal ...

Ryan Moran [00:14:15]
By the way, did you guys catch that? If you didn't have a braingasm here, that's a right or downer. Like Ryan Rouse is saying, the biggest white space right now is third party marketplaces, independent retailers that are online like Thrive and Chewy. That is the biggest opportunity because everybody that we know is going after Shopify, Amazon, some Walmart. But the third party retailers are hungry for acquisition and it's simpler marketing and they have all the customers. Sorry, I cut you off.

Ryan Rouse [00:14:44]
Totally, no ...

Ryan Moran [00:14:46]
That was an important point.

Ryan Rouse [00:14:47]
It's like being a first party seller on Amazon in the backend. You just ... You cut a PO. They buy, you deliver. They handle the rest of it. There's some challenges there obviously with what the product page looks like, pricing can be challenging, and you run into some cross-channel pricing challenges there. So it doesn't come without its own set of challenges, but what doesn't?

Ryan Moran [00:15:09]
That's business.

Ryan Rouse [00:15:12]
That's inherent in business for sure. But yeah, the overall point would be then no business should strive to be a single channel business, not in consumer goods anyway. Omnichannel is the goal. And so it sort of makes me chuckle to listen to or watch social media and have people sort of arguing about Amazon.com versus D2C versus retail versus third party marketplaces. I'm a big proponent of focus, so figure out where you want to be, don't try to be in all those places at the same time, but they're all ... You're trying to sell product.

Ryan Moran [00:15:45]
So, is what you're saying that you would use your ... I'm just going to call it your aggressive customer acquisition model to go deep into one channel and then you would use that profit margin, that momentum to then spearhead additional channels?

Ryan Rouse [00:16:02]
Yes, in a perfect world. It never works in a perfect world.

Ryan Moran [00:16:04]
Well, I actually think that that's an important distinction because I work with a lot of people who are like, I'm going to launch in 3 places at once, and they wonder why they don't get anywhere. Or they haven't won on Amazon yet and now they're trying to do influencer marketing. Or they haven't cracked the nut on something yet and now they're spreading ... That didn't work so I'm going to go into something else. And so they have these multiple half built bridges without slamming through one thing so they have the margin and the momentum.

Ryan Moran [00:16:38]
You kind of tipped your cap to something earlier that was about can you ... You kind of said can you be willing to not make money on a channel almost like can you treat Amazon as just your customer acquisition model. Am I willing to spend what it takes to just make that a treasure trove of customers, or my ecommerce platform? Can I just use that as acquisition? And now you have all these customers to be able to then slam Amazon or slam Chewy or slam Walmart.com.

Ryan Moran [00:17:11]

That is the mindset that I think determines if someone wins, when someone knows, okay, I know that I'm going to spend all of my profit on Amazon back into pay-per-click ads and then I'm going to take all those customers and have inserts in packaging and get their data so that I can email them and slam Walmart and Chewy and eventually I'm going to win. That's like, yeah, yes you are, because you are playing really long term. Do you think that mindset requires someone raises a lot of capital?

Ryan Rouse [00:17:44]
No. It's possible but no. I mean, Amazon, there's still a play for Amazon being a really, really smart first place to get exposure. I would pop up a Shopify store and have a dot com and have it not be a shack because you're going to get overfill from that. People are going to come check out your site and you'll get some opt-ins and things like that. But to your point of focus, I mean, if this is not the cliche of all cliches, but it's that for a reason. Aim all of your arrows, you have 3 arrows when you're starting out.

Ryan Moran [00:18:17]
If that.

Ryan Rouse [00:18:18]
If that. So, you're going to shoot them at 3 different targets or try to hit the bull's eye in one.

Ryan Moran [00:18:24]
That makes sense. Makes total sense. I have nothing to add, ladies and gentlemen. Ryan, I wanted to ask how this applies if you are not selling consumables, because most of what we've talked about, your background is in food, snacks, things that are on subscription. Someone's watching this that sells canoes. They don't buy a lot of ... They're not on subscription for the new color of canoe. So, how does this apply if you are WeatherTech or you're a brand that is not selling something on subscription?

Ryan Rouse [00:19:03]
I think it makes the game, to some degree, a little bit easier because you don't ... You have higher AOV which means that your chances of making a profit on that first sale are going to be much higher.

Ryan Moran [00:19:16]
I see. You're selling a canoe for a higher price than a bag of chips.

Ryan Rouse [00:19:19]

Yes. So, you should view it as being profitable. There's not a payback period, or there shouldn't be, on a canoe company, I wouldn't think. Unless you're a large one, in which case yeah, you've made the determination, we're profitable but we're ...

Ryan Moran [00:19:28]
All the money is in canoes, ladies and gentlemen. That's what you should take away from this conversation.

Ryan Rouse [00:19:32]
Blank space. Blank space. 2 places.

Ryan Moran [00:19:36]
So, I think what you're saying is I'm using this podcast mic right now, I actually don't know anything about this company, but this is a $100 dollar podcast mic. They probably had more margin on this $100 dollar mic than a variety pack of snacks that sells for $40 or $50 bucks. Now, my model would say okay, this brand, YETI, hopefully is a ... My model would be this is now a podcasting company which means they have stands and they have mixers and they have all kinds of things and this would be their customer acquisition tool that they are then to remarket all of the other products to. That is what I assume would be for a non-consumable brand.

Ryan Rouse [00:20:21]
A hero skew. I mean, at the end of the day, even consumable brands will have a hero skew. That's what's the best foot forward you can put in front, it's your best product, it's the most useful, it's the thing that most people are looking for, it's your best tasting. What that you sell has the highest intent out there already that you can sell? And then it's a price point thing. So, AOV is $110 dollars, then you should be able to make a profit on that first sale and then the game is easier on the backend.

Ryan Rouse [00:20:54]
If your AOV is $45 dollars, you're probably not. You're not. I mean, unless it's organic traffic, you're not going to make money on it, in which case retentions, considerably more ...

Ryan Moran [00:21:01]
I just love this game. I love talking to you because it makes me so fired up for the game. So, we were talking about ... I had ... We have a brand that we've invested in in the Fund that's going through a rebrand right now and just about to start getting aggressive in their acquisition, and I'm so fired up to play this game again. I usually save all green room for the end but I just feel

the itch to go over to Dorian. Dorian, you've been hanging out since the beginning. Can I bring you live and you can chat with Ryan and I?

Dorian [00:21:31]
Can you hear me? Good, how are you?

Ryan Moran [00:21:33]
Good, what can we do for you?

Dorian [00:21:35]
You know, I'm just enjoying listening to all this advice. It's pretty over my head right now. I'm ...

Ryan Moran [00:21:43]
Tell us about your business.

Dorian [00:21:45]
Okay. So, right now I am in ... So, I sell custom made kitchen knives. So, I'm currently hand-making each product so this is a challenge in terms of scaling.

Ryan Moran [00:21:59]
A little bit, Dorian, yes.

Dorian [00:22:01]
So, but, I can kind of relate more with the canoe example than with the earlier snack example. So, there's definitely profit right off the bat there.

Ryan Moran [00:22:11]
Why are you hand-making them all?

Dorian [00:22:13]
Because I'm a craftsman, so that's how I got started. I'm about a year in and at the beginning it was more kind of on the side for fun and I'm just now starting to figure out trying to figure out how to grow it into a real business and ...

Ryan Rouse [00:22:31]
Where are you selling them now?

Dorian [00:22:33]

So, right now I am selling through my own website and then mostly through Instagram, so people who find my profile and then it's kind of a direct message situation. So, I'm trying to branch out into not just doing those but doing kind of what you guys were just talking about which is creating a line of products at different price points at which I can get people to start ... Maybe they're buying a hand-forged spatula for $200 bucks and then that then leads them to buy ...

Ryan Moran [00:23:05]
Do you really sell spatulas, Dorian?

Dorian [00:23:08]
I do, I do.

Ryan Moran [00:23:09]
Because it's my example in everything.

Dorian [00:23:12]
Is it actually?

Ryan Moran [00:23:12]
You must be so offended in half of my content.

Dorian [00:23:15]
Not offended.

Ryan Moran [00:23:15]
Always picking on spatula sellers. I just assumed ...

Ryan Rouse [00:23:19]
[INAUDIBLE 00:23:19]

Ryan Moran [00:23:22]
Always my example.

Dorian [00:23:24]
Yeah, I mostly sell knives. So the high-end knives, they're all custom made, but that's my high-end product. It's sometimes hard to get people right into that so I'm trying to start with something that's a little bit smaller.

Ryan Moran [00:23:39]
Who's the target market? Who are the people who buy your most expensive stuff?

Dorian [00:23:44]
Yeah, these are mostly just very passionate home cooks who have an interest ... Usually they have an interest in knives in particular, but I honestly get professional chefs, just passionate home cooks really is the target market.

Ryan Moran [00:24:00]
Dorian, I would actually flip your model if I were you. So, I'd be asking, okay, what are the 3-5 products that that core audience buys, and let your custom stuff be the thing that they buy after those things. So, what I'm saying is whatever you charge for your customer knives, double it and let that be the backend of your funnel rather than saying alright, they buy knives so what are they going to buy next? It's what does that core audience buy now, and that is where your business builds, and that is just the profit driver that allows you to be profitable while you build the actual systems and processes for this business. That would be my advice.

Dorian [00:24:43]
Right. Okay. And I've been very focused on building a list. That's been my big focus. I don't know how ... I think I know how you feel about that, building a list and an audience. I guess a good question might be how much should I be spending to acquire that list? Do you know what I mean? Should I be going all out? If I have $50 grand, drop it on building a list?

Ryan Moran [00:25:14]
Dorian, you have a chicken, egg problem right now and the problem is you don't have enough flow on the thing that is selling to be able to complicate the sales process. So, by all means, keep building your list but you need that thing that is the easy sale, your gateway product because the one that you've got is not that. So, I would be, again, thinking back to what are the entry products for this brand, and you are building your list around those and the thing that you're doing now is the backend profit driver. Does that make sense?

Dorian [00:25:53]
Yeah. So, you're endorsing me selling spatulas, is what you're saying?

Ryan Rouse [00:25:58]
That's what you heard.

Ryan Moran [00:25:57]
I didn't say ...

Dorian [00:25:59]
That better go on ... That's got to be a podcast episode.

Ryan Rouse [00:26:04]
Alternatively listed, you said it, if cooks, if professional cooks are buying them, listen, you're trying to ... Who is the market? It sounds like you're trying to find who that market is, and this is just straight hustle mode, sell to anybody who wants to buy and then that ... You take 2 steps and the next 2 will show themselves and reveal themselves to you. So, what I heard is if professional cooks or chefs are buying these, can you sell to a bunch of them? Can you sell B2B? And that's not necessarily a B2C ... That might be atypical than what you're thinking about selling a physical product in a funnel with an upsell but you're trying to sell to whomever right now.

Ryan Rouse [00:26:46]
If it might take you longer to figure out what that action point product is, go down that path but do a path, can you sell these in bulk at this point? Is there anyone that will buy a bunch of these at one time?

Dorian [00:27:01]
Yeah. I have a problem with bulk just because I'm making everything, every single unit is handmade.

Ryan Moran [00:27:06]
You need to expand that product line ASAP if you want to scale the business, and let that be your backend, not your front end.

Dorian [00:27:12]
And should I be looking ... Should I be looking to have that product line made for me instead of making it all myself?

Ryan Moran [00:27:19]
Yes. Unless you want to hate your life.

Dorian [00:27:22]
To be great, yeah. Noted. Okay. Perfect. Awesome. Thanks so much.

Ryan Moran [00:27:27]
Good to see you, my friend. Thanks for hanging out with us.

Dorian [00:27:29]
Hey, no problem.

Ryan Moran [00:27:31]
So, Ryan, I want to summarize what I'm understanding because there's a few nuances to this that I didn't know about your model. So, your approach, correct me if I'm wrong, is to try and maximize that first purchase as much as possible in order to pay for as much of your ad spend as possible and then be willing to spend 3-6 months runway to acquire those frontend customers knowing that the backend model is going to bring back enough retention and enough repeat purchases to be able to scale the brand. In 30 seconds, is that a decent summary?

Ryan Rouse [00:28:07]
Yes. I think the days of sending people to a low-ticket offer, using paid media to send people to a low-ticket offer on your own site, wherever that is, ClickFunnels, Shopify, wherever that is, and then upselling from there is challenging with current ad costs. That worked. I'm not saying ... Everything has worked, can work, and that does work on some things. But the free plus shipping offer worked with a dollar a click or $2 dollars a click. You're talking $4 dollars a click now. It's really hard to convert even the low-ticket offer at a $4 dollar click unless you're going to make 5 upsells which everyone hates and no one will buy from you anyway.

Ryan Moran [00:28:48]
Makes sense. So, let's talk about the backend then because if you can't nail that, then you're done. And from what I understand, your real sweet sauce with a lot of the brands you've worked with was maximizing that retention. So, tell us about that.

Ryan Rouse [00:29:08]
First of all, prioritizing it. So many brands don't value the retention enough. That starts with customer service. The customer service, understanding that you're having to stage gate this, meaning this isn't all possible in the beginning. But to the extent that you can very quickly get your 16 year old niece out of being the customer service rep part of the time, do that. Your customer service channel is probably the most important ... One of the most important channels in your business from a retention standpoint and so just throwing anybody over there that can answer an email needs to stop the moment that you have the money to make it stop.

Ryan Rouse [00:29:51]
But one is awareness, understanding that retention is the life blood of the business, that you have the understand the metrics that matter inside of retention, and you have to, again, build the model first on an expectation of what you think retention could look like and then start getting customers and seeing what your retention looks like against what that model is. But retention, getting people to continue to buy, assuming you have a consumable product or multiple products so that they can come back and buy, but you're not going to be able to scale a business if a customer is only worth $50 or $100 dollars to you. You can't. It's just not going to work.

Ryan Rouse [00:30:33]
So, you're going to need to get a couple hundred dollars out of those people, and the only way to do that is if they're buying one thing that's worth a couple hundred dollars or over time you're getting them to come back and do that ...

Ryan Moran [00:30:41]
If they're on recurring or if they're coming back and buying more products or if they buy one product that is worth a few hundred bucks. But making those numbers work starts with just having the dedication to build that back out.

Ryan Rouse [00:30:55]
To care.

Ryan Moran [00:30:57]
To care. Yeah. I really expected you to come in with the model of we send an email a day, and we have this follow up sequence. But you're saying, it starts with caring, it starts with the service that you're actually providing. What else would you throw in there?

Ryan Rouse [00:31:11]
So, well, I'll hit on your point you just made. Everyone loves to jump to the tactics, you know as well as I do. All of these tactics work. We could lay out a post-purchase sequence right now for people, and I'll send you a templated post-purchase sequence on what you should do after ...

Ryan Moran [00:31:29]
Great. Appreciate that.

Ryan Rouse [00:31:30]

Because that's super, super important. But the strategy is more important than the tactics always and the strategy of this is caring. Caring to keep customers long enough, understanding what a buying cycle might be, and then making sure that your post-purchase ... Your life cycle marketing on the back, whether that's email, SMS, postcards, whatever it may be, that that is in alignment with what that purchase behavior would be.

Ryan Rouse [00:31:57]
And what I mean by that is don't pummel people in the 2 weeks after if they wouldn't come back and buy. Buying behavior has a cadence to it and so often times we bludgeon in the first week, I'm going to do post-purchase. I'm going to get post-purchase. I saw this blog post about post-purchase sequence that's sick. This is what I'm going to do. Which people wouldn't buy. I bought a month's worth of stuff from you and you're hammering me into ...

Ryan Moran [00:32:22]
Call them every day.

Ryan Rouse [00:32:24]
Letter.

Ryan Moran [00:32:25]
Send a letter. Show up at their house. Leave them a message in their Ring doorbell.

Ryan Rouse [00:32:31]
Direct mail. You're like ...

Ryan Moran [00:32:33]
Ring doorbell marketing is where it all is. Canoes and Ring doorbell marketing [INAUDIBLE 00:32:37].

Ryan Rouse [00:32:39]
Yeah. Knowing when it's reasonable that they would come back and buy again because the whole journey before the first sale should be associated with that. What I'll add to that is the time between purchase and delivery is the most important part of the journey.

Ryan Moran [00:32:57]
The time between purchase and delivery? Tell me why.

Ryan Rouse [00:33:01]

Because they are the most excited they'll ever be about your product in that timeframe because if they weren't, they literally inherently would be dumb because they bought your product. In their mind, think about that. Psychologically speaking, if I buy something and I'm not excited about it coming, then I made a dumb purchase and no one wants to consider themselves dumb.

Ryan Rouse [00:33:24]
So, I made a smart purchase. This is the psychology of it. I made a smart purchase. I'm excited for it because I can't wait because I would never make a dumb purchase. I made a smart one and I can't wait for it to come. So, that time frame that most people are using for transactional order shipment notifications is when you have their attention to tell them your brand's story, to tell them your why, to tell them a little bit about the founders and the team.

Ryan Rouse [00:33:51]
And that's not one email a day for 5 days but use a couple emails to really tell your story and to get them endeared to your brand when they're the most excited for it. Don't just send them hey, here's your little blue dot. Here's your tracking.

Ryan Moran [00:34:05]
That's really interesting because I'm thinking about all the books that I've purchased, if somebody gives me a book recommendation and I buy it immediately on my phone, that is when I am most excited about the book.

Ryan Rouse [00:34:18]
Otherwise, you would have made a dumb purchase.

Ryan Moran [00:34:19]
And it shows up and then it goes on the shelf and then I don't think about it for 2 years. But if there was a way for an author to have it ping my email and say hey, thank you so much for ... Let me tell you a little bit of background of this book. I would now be psychologically bonded to that author and to that book and be more likely to consume it at that point.

Ryan Rouse [00:34:41]
Here's the first chapter, here's a summary of the first chapter, here's the why behind the ...

Ryan Moran [00:34:45]
Yeah. Or 30 days after purchase getting an email that is like, just in case you haven't had time to pick up the book I've included some cliff notes for you to be able to leaf through it, and

these are the parts you should go through. And now I can consume it without ... It's right top of mind, I can consume it quickly. That was my braingasm for the day.

Ryan Rouse [00:35:08]
I'm a big 80/20 person, like a lot of others out there. So, the 80/20 of retention is getting from order 1 to order 2. That is the huge cliff, the drop off is massive. You're doing well if you're doing ... 30% of your customers come back and order from you again. That's sort of industry. You want to be much higher.

Ryan Moran [00:35:29]
Canoes notwithstanding.

Ryan Rouse [00:35:30]
No, no, no. Canoes ...

Ryan Moran [00:35:30]
Canoes are ... You have to have 100% repeat customer rate.

Ryan Rouse [00:35:35]
Is zero but they buy a $1000 dollar canoe because it's awesome.

Ryan Moran [00:35:39]
Because it's plaid.

Ryan Rouse [00:35:42]
Well, it's awesome. But think about that. So, 30% would be good and that is where most drop off, so focus on that. Focus on getting to the 2nd order. The metric that matters in retention, in the early days, is getting to the 2nd order, and the 80/20 of getting to the 2nd order is in that time between that time that they order and that time that they open the box, assuming your product is good because if your product is good it's all worth it.

Ryan Moran [00:36:07]
I'm so glad you're saying this. And Dane Fuller is taking notes like a madman right now which is so good because this, if you are in a food brand or any sort of consumable, that mention of just going from order 1 to order 2 is the game because that drop off between you bought it once and you never buy it again is most of your customers, and it's that chasm that if you can cross that, then you have a shot at winning. Dane, do you want to come up here live and talk a little bit about your brand and get some advice from Ryan? What's up, Dane? How are you tonight?

Dane Fuller [00:36:53]
Hey Ryan. Double Ryan. Thanks so much for having me on.

Ryan Moran [00:36:56]
So, I'm going to brag about Dane for a second. So, Dane is working on a plant-based food line and Dane ... His products are mostly oat-based, and Dane owns the fact that most people don't want to eat oats because oats just taste like watery slime. But what Dane has a ... His tagline is fuller for longer, uses that as a weight loss ... Actually, would you describe why you use oats as the base of all your products, Dane?

Dane Fuller [00:37:28]
Oh, just because [INAUDIBLE 00:37:32] in terms of their health benefits. They help people to decrease their weight, decrease cholesterol, decrease blood pressure, and the main benefit that I found is that they're so filling. And so, the people that have a nice oat-based breakfast stay full for a very long period of time. It's where the tagline fuller for longer comes in, and I couldn't find a better breakfast as a nutritionist than oats to give my weight loss clients.

Ryan Moran [00:37:54]
So, what Dane ... His first product is a ready to go oat-based smoothie that tastes great and actually gets people to consume because it doesn't taste like watery slime. So, Dane is ... Dane, you have not taken an order yet, right? You are still in prototype phase.

Dane Fuller [00:38:13]
That's right, yeah.

Ryan Moran [00:38:14]
Okay. So, Ryan, what advice would you give to somebody who is going in a consumable with interesting margins and was going to a competitive space but was in a market with high valuations as ready to go snack brands are? What advice would you give somebody in Dane's position?

Ryan Rouse [00:38:32]
Start with one channel for sure. Do you know what channel you're going to start on?

Dane Fuller [00:38:39]
I was thinking about launching on Kickstarter, and I would link to Amazon [INAUDIBLE 00:38:45]

Ryan Rouse [00:38:47]
Okay. I would throw up ... I would do one of a couple different things. If you're going ... For anyone, for you or for anyone else that would think about starting on direct to consumer, what's the minimum viable version of trying to validate purchase behavior? So, is that a PDP, a product detail page to a checkout?

Ryan Moran [00:39:11]
So, what is the MVP sales process, is what you're saying.

Ryan Rouse [00:39:14]
Totally. Yup. Some traffic, pay for a little bit of traffic to the PDP, check conversion rates. You have to get people to hand their wallet over and validate how much it's going to cost you to do that. So, if it's direct to consumer that's what I would be, and I wouldn't get overly complex. I wouldn't build a large-scale Shopify site even if it's a template. I would build a beautiful PDP or sort of a pre sale funnel, blog post pre sale to a PDP to a checkout. But just to validate what that ...

Dane Fuller [00:39:45]
What's PDP? Sorry [INAUDIBLE 00:39:48]

Ryan Rouse [00:39:48]
On Shopify, the page that the product is on that has the buy box that says add to cart that has [INAUDIBLE 00:39:55] and all the copy. That's a PDP.

Ryan Moran [00:39:58]
How many times now have you seen a video on Facebook or Instagram, clicked the link, and bought without reading any of the copy? I do it all the time. I just buy in the ad. So, how complicated does your sales page need to be for a physical product? Not at all.

Ryan Rouse [00:40:20]
I would take the money that people do spend on large scale website, or even funnels, and I would put that into creative for the ad.

Ryan Moran [00:40:32]
Or just ad costs. Test a bunch of creatives and just put it into ad costs. I mean, I think the best ad to start with across the board is a reel of your customers just saying how great your product is, what it did for them. And send it over to the most ... If you can demonstrate the product in

some way over to a very simple commander and can you run traffic to that, get customers, and see what your costs are?

Ryan Rouse [00:41:03]
That's 100%. So, EGC is being popularized now. Employee generated content. You guys could just record the video yourself and someone on your team, [INAUDIBLE 00:41:16] your uncle Ryan.

Ryan Moran [00:41:16]
Your investor.

Ryan Rouse [00:41:21]
And have that be demonstrated to Ryan's point and get some clicks and get some purchases. I would agree with the fact that when people say direct to consumer is way more expensive than most people think it's going to be. That's true. It is. But it doesn't have to be in the beginning stages. You don't have to go full boar on it.

Ryan Moran [00:41:42]
Well, I mean, when you're starting, in Dane's position, Dane forgive us for talking about you in the 3rd person while you are on the call.

Dane Fuller [00:41:50]
That's alright. I'm good for you to.

Ryan Moran [00:41:51]
When you're in Dane's position, you're thinking about that first million. You're thinking about product ... How do I test this and ensure that I don't spend the next 6 years of my life on an idea that is a waste of time? You want to see if there is product/market fit. Get it to a $1.5 million dollar top line so that you can decide if this is going to be your life's work or not, or if it's worth doing a proper raise. At that point, when you approve in the market, that is when you know you can go all in, but you can't do that if you're trying to build these very complicated funnels.

Ryan Moran [00:42:28]
Damien Law, I hope you are listening to that based on our conversations earlier today. Make the simplest sales possible and then go very direct into that. What would you say to Dane on the follow up process or the backend process of ensuring that he has enough retention?

Ryan Rouse [00:42:45]
Totally. So, first of all, I would put an upsell in there. Upsells and incredibly effective so if you can get someone to make that purchase on your Shopify site, I would have an upsell in place and it would be more of the same thing. You don't need multiple products in order to have an upsell. What's classically worked and never been able to be beat in consumables is more of the same. It's the old school supplement funnel, it's never gone away, that was used heavily in supplements but it really works. It's just would you like more of this thing and a discount.

Ryan Rouse [00:43:20]
And some percentage of people will take that which will increase your average order value by some percentage. From that point it really is about telling the story in between the time that they order and the time that they get it, being very fast with customer service and having high empathy there, having quality customer service which includes 2 things. It's being quick and it's being nice. Adaptability on the way that you speak to people.

Ryan Rouse [00:43:54]
And then letting them get it. Once they get it, there really has to be a dedication to making sure that you are checking in with them about whether or not they have questions. Don't move off of ... There's a very real sequencing to this. Before they get it, you want to tell them about you. Shortly after they get it, you want to educate them on how people are using them, and you want to make sure you check in with them about if they have any questions about how to use it.

Ryan Rouse [00:44:24]
So, if there could be any confusion about how to use it, maybe it's just you open up the package, you dump it in and then you shake it out, people will be confused by that. I know that sounds weird, but there's that confuse ... Do I use a little stirrer thing, do I need an electric stirrer?

Ryan Moran [00:44:40]
This is coming from the man who sold products for the ... Literally the instructions were put in microwave, cook for 1 minute, put in mouth. Those were the instructions.

Ryan Rouse [00:44:51]
It will blow your mind how creative people get with very basic things. So, instructions in the box, instructions in emails. The whole concept of a consumption sequence in email is about not so much making sure that they consume the product, it's making sure that they're not confused so that they will consume the product.

Ryan Moran [00:45:16]
Makes sense. Dane, does that make sense to you?

Dane Fuller [00:45:19]
It does. And I've just got a couple of questions if that's okay.

Ryan Rouse [00:45:23]
Of course.

Dane Fuller [00:45:24]
Thank you, number 2 Ryan, for sharing that with me. I really appreciate it.

Ryan Rouse [00:45:31]
Call me Ryan Other.

Dane Fuller [00:45:32]
Ryan Other. What you said about having an MVP product and a page where people can come buy that, are you talking about me doing that for the short run as I manufacturer other small [INAUDIBLE 00:45:46] and rather than launching, just using that as a test to see how it fits with the market. Is that what you mean? I might do, say, for example, 1000 units.

Ryan Rouse [00:45:58]
I think it's a plausible strategy. I don't know how much money you have and how much money you're willing to go through. That sort of is a cash flow thing. If ... MOQ, obviously, is going to dictate pricing for you, so I wouldn't put yourself under the barrel, but yes, some proof of concept. What I meant was more on the trying to get people to buy side of things, but overall what my best piece of advice for anyone is, figure out what the minimum viable version of every part of your process is in the beginning so that you can prove that out a little bit.

Ryan Rouse [00:46:31]
If it works, listen, if the biggest problem that you have is you run out of inventory, that means something worked so now you can feel a lot more comfortable about putting money into buying more inventory, building out a little bit more of your site, building out a little bit more of the email sequence, so on and so forth. But I hear people talking about having a fear of stocking out, and on Amazon there's a very real implication for that so I totally get that. But even on Amazon, more are not going to work than are going to work.

Ryan Rouse [00:47:02]
So, if that's the worst thing that can happen, although it's not ideal especially on Amazon.com, there are worse problems to have like dumping a ton of money into inventory and having it not sell. So, just be mindful of what is the minimum version.

Ryan Moran [00:47:15]
And Dane, I was not giving that advice when I said that. What Ryan and I are telling you is to make the sales process as simple as possible. I mean, as simple ... And see how quickly you can get sales and at what cost. So, Alex Hormozi when we did this last month called it flow before friction. Can I get things flowing before I add barriers in the process, which means can I create a very basic Facebook ad, send them to a very basic landing page, and will someone buy? And the numbers may not be good, but is there demand and desire for it?

Ryan Moran [00:48:04]
Or maybe the numbers will be amazing and I have incredible product/market fit. That's what happened with Magic Spoon, and we had Gabi on the podcast last month talking about they opened it up, slam, huge demand, solid product/market fit, right time for that brand. And so, we're testing that where you are in that process right now and that will determine so many of your decisions because now you have actual product, you have customers, you get real feedback, you may not be profitable yet, that's okay. We're now adding in upsells, we're now adding in follow up sequences and now we have a path to profitability.

Ryan Moran [00:48:44]
Now, oh my goodness, we're running out of stock. And now it's an easy conversation with investors and advisors. You've got flow. That's where now there's momentum that we can scale into something special.

Dane Fuller [00:48:58]
And is this all before I launch on Amazon? That's testing using, say, Facebook ads to send them to a landing page.

Ryan Moran [00:49:03]
That's an interesting question. So, you've answered Dane's question without mentioning Kickstarter or Amazon which was Dane's. So, that kind of made me think maybe Ryan says this is ... That Dane doesn't have the best plan. So, would you clarify that a little bit?

Ryan Rouse [00:49:19]

Yeah, true. So, I think Amazon is a brilliant place to start so I wouldn't necessarily ... I'm not recommending not doing that. I think 1 is better than 2. Please. I think Amazon ... I would really and it's not ... Amazon is a simpler version of marketing out in the wild on direct to consumer. It doesn't make it easy, it's just simpler. The Amazon ecosphere is slightly simpler, less moving parts from a fulfillment perspective, obviously, and customer service.

Ryan Rouse [00:49:57]
So, if Amazon is your jam, just stick with Amazon then. Do it but go all in on Amazon and make sure that you're approving out ... You're giving it a real shot before, to Ryan's point earlier, before you get shiny object syndrome, or shiny channel syndrome, and try to go everywhere.

Ryan Moran [00:50:14]
And Dane, I was telling Damien this earlier. We were sending messages on Facebook back and forth. But I was telling him that Amazon is a perfectly simple way to collect the sale. It strips out the long copy, it strips out the video sales letter, people have their credit card on file. It is a very simple place to take the order. One step more complicated than that would be to run Facebook ads to a squeeze page and then send them over to Amazon, which is totally cool because you get some customer data, you can now test the conversion rate of the squeeze page. Squeeze page can be abundantly simple. You can know a little bit about what your click rates are going to be, what your click costs are going to be, what the cost to acquire an email address is.

Ryan Moran [00:51:03]
If somebody opts in for a coupon, you have basically a hot list that you can start to build and remarket to. So, that would be one step more complicated, one step more optimized. And so you're putting traffic into Amazon and you're building your list at the same time which gives you the ability to kind of bully Amazon's algorithm because you're sending outside traffic and you can do sales to your list and make it easier to get reviews.

Ryan Moran [00:51:33]
So, that to me is ... That's as complicated as you should make it until you know you've got product/market fit, until you've sold those first 1000, maybe even 10,000 units, then you've got reviews and you can go aggressive and then you can think about reinvesting into other channels.

Ryan Rouse [00:51:53]
Yeah, you can even send Facebook traffic directly to Amazon. Amazon's got decent attribution now so that you can look. You're not collecting the email address, but to Ryan's point about

Alex's point is flow before friction. Facebook traffic straight to Amazon. They didn't used to have attribution, meaning that you couldn't tell if the traffic from Facebook was generating sales on Amazon and now you can. It's not perfect attribution but it's better than it used to be.

Ryan Rouse [00:52:22]
And so, there's less friction in that. Amazon does like outside traffic, so that's even a simpler version of that and then maybe you put the squeeze page in front. So, yeah, just adding the friction piece by piece.

Ryan Moran [00:52:32]
Does that make sense Dane?

Dane Fuller [00:52:33]
Okay.

Ryan Moran [00:52:34]
We'll let you get back to parenting, Dane. Good work today. You did good work today.

Dane Fuller [00:52:41]
Thank you.

Ryan Rouse [00:52:43]
See you Dane.

Dane Fuller [00:52:43]
Thank you Ryan, I appreciate it.

Ryan Rouse [00:52:44]
Good luck, man.

Dane Fuller [00:52:45]
Thanks a lot, other Ryan. Cheers. Thank you.

Ryan Moran [00:52:48]
Alright. We'll wrap things up in this camera over here. Ryan, that was freaking hot.

Ryan Rouse [00:52:55]
I enjoyed it, bud.

Ryan Moran [00:52:55]
Good work. I tell people ... It's so funny. I work with a lot of Amazon sellers who are used to customers being "free". They think of it as free just like in the olden days when people thought that SEO was free but it's not free at all. The reality is, whatever you are putting time and attention into is going to cost resources and customer acquisition, once you nail, is ... It's what is the foundation of the scale of the business, and people just assume that whatever channel they optimize for is going to be the thing that takes them to the stratosphere but there's so much more of a deeper foundation of it. That is why I think you've been able to nail every business that you've walked into. So, thank you for hanging out with us.

Ryan Rouse [00:53:54]
Thank you, I enjoyed it buddy. It was fun.

Ryan Moran [00:53:55]
I like you. Alright. Bye everybody. Thanks for hanging out with us. See you.

Ryan Rouse [00:53:58]
Take care everyone.

Ryan Moran [00:54:01]
If you found value in this podcast and you're ready to go deeper, here are 3 resources where we can help you. 1, you can grab my book 12 Months to $1 Million on Audible or Amazon. It has over 1000 reviews and it's the playbook to building a 7-figure business. 2nd, you can join our community of entrepreneurs who are following a plan to build a 1% net worth by building businesses and investing the profits.

Ryan Moran [00:54:26]
You can get plugged in at Capitalism.com/1. And 3rd, if you're looking to go deeper and build a 7-figure business that you can sell, you can work closely with us inside of the Capitalism Incubator and you can get on the waiting list and find out what we do over at Capitalism.com/inc. That's Capitalism.com/inc.