Jake   00:10
Thank you, Keith, for coming back on the show you came on about two years ago. And I'm excited to have you actually, as the first repeat guest on part of Jake, so great to have you. Yeah.

Keith Rabois   00:20
It's a pleasure to be with you again.

Jake   00:22
Thank you. And for those who you know, missed that first episode, I encourage you to go back and listen, it was it was a really interesting one for me one of my favorites today for sure. And we basically spent an hour going through some of Keith's key principles. And I think, you know, for those who don't know, Keith, so Well, he's got some principles that I find to be, you know, they just really resonate with me from an operating perspective and in business, and also just from a perspective and how to live on a personal level, time management and things like that. So what I'd like to do today, and what I'm excited to do is to sort of take some of these principles and look at them in terms of the context of open store, which is a company that Keith has started in the last couple years, based in Miami. Really interesting business. So I think, Keith, if that's good with you, we'll we'll make that sort of like the theme of the episode and hopefully have some fun. Sure, dive right in. Great. So again, people who haven't listened to the first episode, I think you can go back and do that first, though, honestly, it's like pretty timeless stuff, and will probably be some context that I don't go into from scratch on this episode that would be useful to have coming in. So if you want to go do that, go do that. And we'll just dive right in here. So Keith, I think, correct me. I mean, you started the business round two years ago, something like that. And then you went like series A Series B, and another raise from locks, like all in a matter of, you know, with months in between, I think it was July 2021, you raise 30 million from COSLA, November 2021, you raised 75 million from general catalyst, September 2020, to 32 million from locks, all at increasing valuations, despite, you know, the macro environment, especially with retail and things being a little bit, you know, some other companies in the space are having difficulty raising and all sorts of spaces

just VC is way down in general, how are you putting together this momentum despite, you know, adverse environment, everything like that?

Keith Rabois 02:13
You're right, we started the company on March 17 2021, Incorporated, launched approximately September 2021. So about 18 months in market about two years old as an entity, we did raise money fairly frequently. Part of that was opportunistic, it wasn't necessarily so strategic or intentional. There's people who are interested in what we're doing the vision of what we're doing, they understood the differentiation for what other people were doing. Ecommerce is particularly broken and stagnant at roughly 12 to 14%. of retail. And we think we have a formula to unlock the next 50% of the Commerce United States. So that's obviously exciting to investors and employees, as well as hopefully to all Americans. The difficulty, obviously, of raising capital increased as the public markets corrected back to a more normalized environment as interest rates were actually increased pretty substantially by action of the Fed. And so I think there was some benefit of high foresight, let's say, in predicting that inevitably, inflation will drive interest rates up, which should drive tech valuations down. So that was part of the decision making was understanding that things were likely to get worse from a VC private financing perspective, over the next call it 12 to 24 months, but it was still mostly reactive than proactive.

Jake 03:43
Well, one of the things I've learned from you is sort of like the the value in matching your fundraising to various milestones, and more specifically, like determining what's the next biggest risk in the business. And you know, that's the thing we're going to be trying to de risk with this next chunk of capital. And so figuring out, you know, rather than just like a neutral, oh, we need 18 months, or whatever it is, for some arbitrary set of tasks. It's like, No, we're doing this exact thing. It's going to take this long, it's going to be, you know, it's going to cost this much. So did this track, you know, despite sort of some of the external factors did this track follow that in any way? Were there specific, early milestones that you thought were most important in terms of big things to derisk for open

store that you sort of organize these around? Or did you have to go sort of off playbook a little bit because of the environment?

Keith Rabois 04:31
So on the principle of basis, I completely agree with that view that really defining milestones against time is not a productive exercise. Like you often hear people talk about runway 24. Most people have trollbloods runway, and they think of that as some input or some deterministic pause positive thing. And I actually think that's, that's a constraint. It's like driving your car. There's a certain amount of gas in your fuel. That's the constraint on how far you can drive but you don't look at your gas tank and say, drive me somewhere. And so I always think in terms of milestones, inflection points, accomplishments, proof points around risk reduction, I would say we did deviate from that playbook a fair amount, partially because of the opportunistic availability capital and the belief that the availability of capital was going to significantly compress over some in some short period of time. So I didn't exactly adhere to that. But generally speaking across all companies, I've been involved in all companies over the board of all companies stepping into faster, and I think that's the better approach.

Jake 05:35
Right? So let's maybe just introduce before we get too deep, you know, what is open store? And it's sort of a short and fundamental description as you can give, and then going back to the fundraising piece, I'd be curious in this specific case, what some of those early things that you feel that you know, the biggest risks that you feel the need to de risk, what some of the things actually are for the open for business?

Keith Rabois 05:56
Sure. So we think our mission is to reinvent e commerce to allow for Sara serendipitous discovery of products in a way that bypasses or obviates the need to shop in the real world. So we have a design district, Miami, there's a lot of great brands, and a mile and a half from where I live. I probably travel there once a month. But it's a pain, I have to travel there once a month parking is inconvenient. The hours that the stores are open is very incompatible with my work

schedule. So there's no inherent reason why the reasons I drive to the Design District can't be substituted by an app. But nobody in the West has figured out the solution for serendipitous product discovery at scale. That's our goal. The way we actually do that, in practice is based upon a couple key insights. One Shopify over the last 1215 years is one of the sort of secret successes of technology right in the middle of Amazon's backyard. Shopify store owners and brand owners typically are excellent at storytelling about their brand. And that is what leads to serendipitous discovery, people often serve, let's say, Instagram, and discover products that they didn't know they needed. But they're excited about enthused about, and they purchase them. So that's what we want to create is an Instagram to Shopify experience that allows people to be delighted with new ideas, new products that they wouldn't have been searching for on Google or Amazon.

Jake   07:30
Right. So you mentioned that, you know, that hasn't been done in the West hasn't been done in the east.

Keith Rabois   07:35
Well, I think in China, you can see some super ops sort of commerce, e commerce apps where they do surface products that are probably not driven by pure purchase intent. So I think there's a lot of dynamics that are different in China about shopping, is even if nothing else, the retail environment may also be different, like your legacy offline options may also be different. But nobody The West has succeeded with this, most of the horizontal platforms that are popular with, say the United States were built in the late 90s. And no one's really built a horizontally interesting platform across all price points or verticals, since the late 90s. So we're trying to accomplish that the way we do that is we provide the Quiddity to small shop of small longtail smaller, longtail Shopify stores, let's say $500,000 in GMV, or sales, jumps to $10 million in jmbm sales. And we offer them a price using data to buy their business. Or now a week ago, we launched a new product called Drive, where we will guarantee them the cash flow from their business, but we'll actually run the business for them, which reduces their stress allows them to focus on other things in their life, whether it's their family, their health care, or other initiatives.

Jake   08:54
Yeah, so I definitely want to get into these acquisitions and also the new product that you guys have locked open storage drive. Basically, if I can sort of, like regurgitate some of what you've just said, it's like, you guys are buying some of these, not like tiny but not huge, you know, stores on Shopify, they're between few $100,000 in revenue, two few million dollars in revenue, something like that, and you're paying, I don't know, some somewhere around like 2x EBIT, da I think you have other metrics that you're actually using to inform the price but that's sort of like, you know, retrospectively what you ended up paying for these things. And then I think like right now you guys are just in like optimized mode. But eventually the vision is that you can create this, you know, I don't know like marketplace, the right word, but somewhere that where people can go that's not in the physical world where they can rediscover some of the spontaneous and serendipitous discovery that is sort of currently missing in the E commerce world and it sounds like and that's people you know, that's your theory as to why people go still physical shopping despite, you know, having to deal with traffic and off hours and whatever, like, online is better in a lot of ways. But the one thing that it hasn't really been able to replicate or do better is The serendipity and the spontaneity and the inspiration and things like that finding things that you didn't know you to search for, basically, is that a decent recap?

Keith Rabois   10:09
Yeah, I think that's mostly accurate. We aspire to have a destination, both web and app that allows, you can imagine a consumer in some ways have a decentralized department store. So just as if you would go to back in the day, like a Macy's, a generic, you know, sort of department store, it would have apparel, it would have home furnishings finishings, it would have some brands and a stand alone pockets like Hugo Boss might have its own store within a store. And then there'll be a men's shirt section that collects on different brands by size, typically, so that that metaphor definitely can apply to online transactions. But I think we're gonna layer a new iOS app on top of the inventory, and the products and SKUs that we represent. And

has, that has a slightly different value proposition that becomes a destination app in and of itself.

Jake   11:10
Okay, yeah, that makes sense. So there's some things that are sort of tangentially related today, but nothing exactly like maybe a little bit more on the east, but nothing in the Western world. And am I correct to sort of hear that your your you think that basically, ecommerce has maybe plateaued a bit because this, this factor is sort of missing in the experience, and there's a lot more potential, basically, for e commerce to gain market share and retail overall?

Keith Rabois 11:35
Well, yeah, I mean, I think the fact that e Commerce has been basically stagnant for decades suggests that there's a real constraint. And I think, usually when you hit a real constraint for a decade, there's a fundamental root cause or two that needs to be addressed and reinvented.

Jake   11:50
Right. So so far, you guys have acquired? I'm not sure actually how many I heard on a pretty recent podcast, I think it was like 40 or 50. At that time, but you had another 20, and diligence. How many acquisitions approximately, have you guys made at this point of these Shopify stores,

Keith Rabois 12:06
we've acquired in the 40s. Now stores, that's a war we, that makes us the largest acquire in brand operator in the world, I believe, of Shopify stores. And then secondarily, we now have another whole pool of businesses where the merchant, the brand owner has decided to sign up for Drive. So we'll be adding a bunch of drive merchants to sort of the open store family ASAP.

Jake   12:33
Right. So maybe, actually, we should get into drive a little bit earlier, because it was sort of hard for me to parse from online, but it may have actually sort of like altered the trajectory of the business. And maybe, maybe, maybe not, I'm not sure. But is it

something with open store drive, basically, rather than acquiring these businesses you're offering to the to the, you know, company owner, the store owner, that you will run their operations for a year, you in advance of that year, tell them exactly how much income you're gonna be able to give them per month based on their statistics similarly to how you generate a an acquisition offer, instead, you're generating, you know, how much income you can give them as a store owner per month, they keep full ownership, I think you guys charge 10% management fee, basically. And then at the end of the year, they can either sell you the business, which has been open storage, you know, business model to date, or they can, you know, opt out of the whole thing, or I think they can continue on actually with, like the drive management system, and they can go on vacation or do whatever, they want quasi retire while you guys run their store, and they continue to get majority of the income. Was that something that you guys had planned as, like, an upcoming product from day one? Or is that something that came out of some thing that you observed in, you know, talking to these owners originally? How did that come about in the first place?

Keith Rabois 13:50
Yeah, so drive was a manifestation of a few spontaneous conversations that I had had with some of my colleagues and kind of put some puzzle pieces together. I mean, from a top level perspective, though, it's obviously not every brand owner wants to sell their store right away. 70% of Shopify brand owners do want to sell their store at some point. But we want the largest collection of products, the products are really the supply that drives the inspired purchase. And so we want to accelerate our brand portfolio. And one really efficient way to do that was to use the same pricing model and just predict next year's cash as opposed to the future cash flows beyond one year, and then offer sort of the brand owner a no brainer value proposition, which is you get all the same benefits, subtract a 10% fee, and you do no, none of the work. I mean, I wish someone would do that adventure. I would love to get off the same ferry, you know, and pay 10% of it back and do no work.

Jake 14:49

Yeah, I mean, it sounds like a great deal for the store owner, which sort of begs the question of like, why does it make sense for you guys on the other side of the deal? It's like a relatively small cut. You're not Getting ownership of the business to eventually consolidated up is it just the fact that you can sort of convert more easily to the ultimate acquisition with this intermediate step, which may not in and of itself be quite as valuable to open store, but overall should sort of be worthwhile?

Keith Rabois 15:16
Well, I think there's several dimensions that are attracted to your one is we need a larger brand portfolio. So if I'm running to decentralize department store, I need enough products for you to buy. And so if, let's say, of the 70% of brand owners on Shopify, who wants to sell at some point, let's say only 20% want to sell now, I may need more products than that. And so it's a good solution that Secondly, people are a little bit more emotional, truthfully about selling their business than just analyzing their own cash flows. And so it's a lot easier to convince them that our pricing model is accurate. They understand what their cash flows are, it's kind of a factual statement projecting them next year. It's kind of noncontroversial, though you say, here's the value of your business, you it's kind of a more complicated conversation. So I think it just simplifies closing brand owners. And then third is I think that we wanted to test out some new ideas. And so the combination just make tons of sense.

Jake 16:17
Yeah. And so I saw this is like, fresh off. I don't know if you guys have had any early indications of how this is being picked up. I saw like one of the promo videos the other day, which was really nice. It's like you go from as a business owner, you go from like this phone with like, all these notifications of all these problems at your business to like, literally to notifications, here's your passive income for the month. And here's a reminder for your flight to to eat it, I thought was pretty clever.

Keith Rabois 16:39

Exactly. We wanted to make this like autopilot to literally we will drive your store for you. You don't do anything except get the rewards.

Jake   16:49
Yeah, and so you know, talking about sort of needing some, like critical mass of brands and trying to get there very quickly. I understand you guys are pursuing like, a generalist approach a horizontal approach. Like any industry, you don't care. You're not like starting with apparel or kitchenware, or whatever it might be, and like trying to, you know, I guess, sort of build build some inventory of various brands within, you know, a given vertical, you're just going all out and regardless, sort of vertical agnostic, basically, as you build this massive collection of brands, was there any thought that went into that, like why you took that approach rather than something more like vertical by vertical, like such as you know, Amazon pursued or something like that?

Keith Rabois   17:35
Two reasons. First of all, we wanted to mirror the breadth of Shopify. So our goal is to have the roughly the same distribution of products Shopify has. So we have 43% apparel, approximately Shopify has about 40%. So we're on target with that. So I think if you're going to reinvent commerce, you need to have breadth and variety. Second, I genuinely believe that horizontal businesses are better than vertical businesses. This is sort of moderately controversial. I think, basically, there's a fixed cost and pain to building a startup. And so you might as well amortize the same pain across the biggest possible vision.

Jake   18:16
That makes sense, basically, it's gonna, it's gonna hurt either way. So you might as well go big sort of thing.

Keith Rabois   18:21
Not Yeah, I think there's just a few examples of people who started with tight verticals and expanded successfully. I think Facebook is the canonical example. But I think it's rarer than people realize, usually, just the first vertical is so damn hard that you lose energy

and enthusiasm and time to conquer the other verticals. So you might as well start broad,

Jake 18:41
right? So I want to dig a little bit deeper into the actual process that goes behind the part of the business, which may be like sort of more gradual now and getting to an eventual acquisition, maybe drive becomes something that's, you know, an intermediate step for the vast majority of deals, maybe it's not, I'm not sure, but eventually, there's going to be an acquisition. That's the goal, at least, and you guys are doing these, like, I think the initial goal was sort of, after you got sort of a bunch under your belt was to get to a deal a week and then building the system in a way that could eventually scale to like a deal a day. And I think you guys are already at being able to make like a same day acquisition offer and it's like, you know, super low friction for the user. There's like a quick three step process they can get an offer on their business in a day similar like what you're doing or what you've done at open door you know, making offers on people's houses. So it's all very quick and not only is it like quick already but I understand you've like thoughtfully designed processes in a way that they can get to like maximally quick like you can get an acquisition offer in an hour instead of a day and you can you know, you guys like I said can do a deal every day instead of every week. Have you thought like, can you you know, I don't know which process you want to pick but one of them More important processes to the business that's sort of like makes or breaks it. And it would be great just to hear about, like, sort of how you design to that process from day one to be able to like, as easily as possible. Obviously, there's gonna be tons of challenges, but like, make it feasible, at least to scale these things, or maybe not scaling, but like speed them up, to the degree that most people would probably think it's like, not possible.

Keith Rabois 20:20
Yeah, so we started with basic principle of working backwards. So you know, you want to create an automated system that allows you to price merchants in an hour, and allows you to close merchants in a matter of days, you want to design a process that has the potential to do that, if you start, by relaxing the constraints, you're never going to get

there. So you use a lot of humans to price the business, the economics aren't going to work and the scalability is not gonna work. If you use a lot of diligence, you're never gonna be able to close every day. And so once you know what your goal is, you do start factoring that in from day one. And even if you're not like pushing the envelope on day one, you have a vision of how you can push the envelope when you need to. So for example, we do we do provide business owners and offer within one business day, we could tighten that if we wanted to, we could handle easily 20 Plus, you know, pricings today. So there's a lot of a lot of capabilities already. But we can mostly scale that the goal now is to actually not just not just get a accepted offer per week, it's actually to implement integrate one new business a week. So further down, kind of moving further down the funnel. So that's a new goal. But if you know you're going to want to one day implement, integrate, absorb a business a day, you'd want to design processes, software, human processes that allow you to get there, so you don't have to start from scratch.

Jake 21:59
Yeah, so the funnel is roughly like the acquisition needs to be highly automated or not the acquisition or rather, the acquisition offer, the pricing, basically, the business needs to be highly automated, done this sort of conversion to an actual, you know, converting the offer into an actual sale. And then there's a period of diligence that follows that, I think right now it was like, or at least last I heard, it was like a couple of weeks until the owner actually, sort of like the deal is fully closed, they get all the cash, I think there's some upfront cash, and then maybe 80%, up front 20% late or something like that. But it's all within like a couple of weeks. And then you guys have to begin the actual difficult process of integrating the thing and implementing all the optimizations that you guys are making and things like that. And is that last piece that like sort of end of the funnel bar is probably the most challenging, you would say or or all of it, you know, various pieces are challenging there.

Keith Rabois 22:51
So we we do provide 80% of the cash on an acquisition upfront with 20% earned over a few weeks, you know, afterwards, the most, I wouldn't say a one piece is more challenging, certainly integrating absorbing.

When we first started that process, we learned a lot. So you know, having never have actually there probably nobody had ever done this before. And then the degree of Volume Two, we definitely had to learn like what do you need to do? What do you need to pay attention to what goes wrong? I think now that we've absorbed a fair number of businesses over you know, the last year, hopefully, we're pretty good at it, there's still we still learn new things. There's one business we absorbed this week that we still learn something new to pay attention to. So you know, it never gets easy, easy, but I think you do clarify your sort of roadmap, your product roadmap, your process, roadmap, your checklist, so I think we can price, we're getting better at diligence, like I'm sure there's things that we should have caught intelligence in the first eight acquisitions we made that hopefully, we will, you know, ever forget to ask, you know, certain kinds of questions again. And then there's things that I've observed that we've definitely learned along the way. So hopefully, at the end the process, you get to a fairly smooth plane ride where nothing goes wrong. And if there is there's a checklist of you know what to do.

Jake 24:09
Yeah, so I understand you guys have done sort of like, at least in analyzing the acquisitions today, you've looked at things in terms of like cohorts, I don't know, you know, what the duration is, or maybe it's not time, but number of companies, whatever it might be, I think you're like a few in at this point. And like the first one, I understand like, there's a lot of learnings. Second one was a bit better. Third one even better, and now you're trying to like really hone in on like, Okay, we've got enough of these to have like a really good sense of what we're looking for, hopefully, the low hanging fruit of problems, which were non obvious up front, obviously, otherwise, you would have like planned for them, but sort of, we're just, you know, hidden enough for unexpected enough. It's a bit of a new space, whatever you sort of figure these things out as you go. What's been like the key to actually learning quickly and iterating quickly between these various cohorts and just improving cohort over cohort and maybe like a specific example of learning from sort of one To the early, you know, bad acquisitions that has led to sort of not making the same mistake twice, things like that

Keith Rabois 25:06
was this really bad acquisition? It was just learning that if you don't pay attention to all the details, there's always some corner case that goes wrong. You have to transfer Facebook account ownerships, there's a process of telling that's entailed with that there's software transferred a little bit easier, we have to do a lot of software transfers. One thing that is fairly unique to Shopify is Shopify has a broad ecosystem of plugins. And every brand we buys its own custom a selection of those plugins, it feels like a little bit like Android Wild West of like how the plugins integrate. So figuring out how all the user flows work is a non trivial problem. I somewhat wish that Shopify was a little bit more like the App Store where there's more constraints, and it was more obvious, but you know what the permutations can be? We've gotten pretty proficient on it by now. But there's still corner cases that you've never seen before.

Jake 26:01
Is there? Like, is there any sort of power law to like what plugins or what Shopify services people are using, or it's like just all over the place and very difficult to like, you're not getting

Keith Rabois 26:13
outdoors, somehow power laws around let's say, Buy now pay it later services, most people use that firm Clavijo is pretty popular choice for turn buys pretty popular choice. But there's still a lot of plugins that are pretty unique and custom. And so one of the things we do do when we absorb and integrate is we have a preferred, you know, let's say call tech stock for lack of a better term that we want to run the stores on. But we want to make sure that as we transition to what we prefer, we don't break things that are converting well.

Jake 26:45
Yeah, so one of the one of the interesting things we discussed actually, on the last episode we did was previous businesses, you've been able to find like anomalies in the data out of various company, whether it whether it was like LinkedIn, or square or whatever it might be, and they lead to like pretty significant strategic decisions or, or changes in the business. Is there anything I know, it's still like relatively early with open store, but is there anything that has

been like sort of, totally out of left field that you've seen, that sort of informed strategic change, or still just sort of following things, and nothing crazy has jumped out just yet.

Keith Rabois 27:24
I think there are some opportunities that we've seized upon, they're not always good ones, you know, like anomalies cut both ways. There's anomalies you learn that you don't like and you have to figure out what the root cause driver is and address that. And then occasionally, there's anomalies that you can really amplify, I think, one anomaly that's positive is, I do think that the acquisition price if you Doc intuitively, you did about EBITA, is probably lower the market, either for longtail business just is significantly lower than maybe your thought. That's not again, how we drive our acquisition pricing, we're build a business and we value the business based upon what we think we can do with the business and how it affects what we're building that, you know, just using standard MBA tools. But so that was a sort of positive discovery, in some ways. Negative discovery is almost everybody in direct to consumer or businesses in 2022. has too much inventory or had too much inventory. And so there's just a surplus inventory in the market. If we're buying a business and they have too much inventory. We don't we don't want to buy too much inventory either. So I think it's a problem that didn't really exist two years ago, but it's very acute. Everybody overestimated q4 This year, and bought too much inventory. So when we acquire business, we want to buy the right amount of inventory. And we've got fairly proficient at predicting what that right amount of inventory is.

Jake 28:56
Yeah, it's interesting. I mean, I know like open door, you know, the other business you co founded was, you know, had to deal with sort of this unexpected, the fast, unexpectedly sharp rate hike, which, you know, killed a lot of growth in the economy and whatnot. And that, you know, of course, you've modeled these things in but you sort of probability wave various scenarios. And I don't think a lot of people two years ago had any, you know, reasonably high probability on what we've actually ended up seeing and reality is open store, if you sort of had to take some of what you did with open door and sort of try to

project some macro elements similarly, just because of how much it affects all of these stores that you're acquiring.

Keith Rabois 29:36
No, I don't believe that there's a massive macro driver underneath open store. As I put it out on CNBC recently, we have a mix of luxury goods and inferior goods, meaning inferior goods means that in tough economic times, like a recession, people buy more because they're cost effective. So we don't have just expensive goods or we don't have just inexpensive A good having a mix is very attractive if you're in a volatile, volatile economic future. So people may substitute into some of our brands when their budget goes less far, and they may buy less of some of our other brands. So I think a diversified portfolio is actually pretty positive. But I don't think we have a particular exposure to some macro environment. I mean, obviously, if the US entered a true depression, and consumers aren't spending on any, like discretionary purchase, that clearly would not be great. I don't think there's any realistic likelihood of a true us depression, you know, in next x months, even probably y years. So I'm not particularly stressed about that. And by the way, that wouldn't be unique to us, if we're in a true depression, virtually every tech company has real fundamental problems.

Jake 30:48
Yeah, I mean, you've got to take certain risks and just assume like random down to zero, so you can, yeah, where you want to

Keith Rabois 30:54
be the interest. Interest rate exposure on mortgages is obviously, a fairly specific thing associated with residential real estate, which is, you know, the price of mortgages has been artificially cheap. So the affordability of a home has been very high by any historical norm. And so clearly, if interest rates go up, and they go up very fast, people's ability to move into new homes under the new terms of a mortgage, or is going to be really constrained, and people have therefore postponed new home purchases, I choose postponed very intentionally, people do need to move like for new jobs, due to divorces, deaths, you know, bad things, or you know, family expenses, good things like they have kids, they want larger space, you can only

postpone and defer those moves for some period of time. And then the new mortgage rate interest, you know, environment will cause people to transact open doors to transactional models. So the more people that buy and sell homes, the better the company's going to do. So as soon as that normalization occurs, and people recognize that interest rates aren't going all the way back down, then I think open door will thrive very well. The starkness of the interest rates did catch people off guard, historically, if you've modeled interest rate rises, they weren't quite as sharp, there are precedents and they're hot. They're definitely an open Earth model. There's experiences historical experiences with rising interest rates, but the steepness of the interest rate dries, definitely was pretty unprecedented. But eventually it reverts back to a pretty normalized, predictable environment. And people will buy and sell the I call it 5 million homes instead of 4 million. And that's very good news for open door.

Jake   32:41
Yeah, that's an interesting, interesting perspective on the real estate market, I never just quite thought of it that way that there's sort of like this base layer of like, there's maybe like a spectrum of need to move versus want to move and want a bit far extreme is just like, totally just, you just want to move, there's no particular reason it's totally selective or whatever. And then the other side,

Keith Rabois   33:02
yeah, pretty tight band. If you analyze home purchases, you know, roughly speaking over 40 years, you're talking about the band is 4 billion at the low end and 6 billion at the high end per year.

Jake   33:15
Yeah. And so I guess that's sort of like the opportunistic layer, maybe that fluctuates up and down. And then the rest of it is just sort of like people have to move and you know, they can't afford it.

Keith Rabois   33:25
If I was critiquing open door from afar, with even without the benefits of hindsight, the fixed one thing you want to do when you know the band range is four to six millions make sure your fixed costs are low enough that if 4 million they still make sense,

Jake   33:41
right? Well, we'll see how that goes. We can maybe talk about open door a little bit another time, but I want to keep going on open door a little bit. And I'm very, you know, there's some good pieces on open door out there that I would encourage people to go read. I think recently actually, forget the CEO did an interview with someone I liked. I can't quite remember who it was. But maybe it was for tech curry or something. But

Keith Rabois   34:04
checker is great in covering open door over the years. There's a couple what I call avatar analysts on Twitter that are excellent in covering open door very accurately using data and rigor. So there's a lot of sources of information for people who want to do their own, you know, the proverbial own research on open door.

Jake   34:24
Yeah, so a cool company, I encourage people to go check it out, keep co founded this a while ago. And, you know, it's obviously a huge opportunity. And so, early execution, I think, has been quite good. And you know, now there's an obstacle in the market, but hopefully they pull through and it ends up being super impressive.

Keith Rabois   34:42
I mean, the way your builder once said, This, to me is just insane that in the West, the largest residential real estate company is like a $9.9 billion market cap. It makes no sense. branch target market, trillion trillions of dollars, and so one way or the other someone, hopefully open door, he's going to capture the 100 billion dollar plus opportunity.

Jake   35:06
Yeah, hopefully open door. So I'm coming back to open store, we got one of the sort of things we talked about last time as well was, and I think you've talked about quite a bit, just publicly is sort of the importance of not just like figuring out what your key metrics are. But having counter metrics for all of those, if you optimize too much for something, no matter how fundamental that thing might be to the

business, if you're not paying attention to the counter metric, then you know, you could get in big trouble, like, for example, a few. If your metric is like speed of hiring or something, then the counter metric might be the quality bar. And if you might be fine, you know, hiring faster than anyone else in business. But if you're lowering the quality bars result, then that's not going to end very well. One that I can sort of imagine from afar for open store, like one example of this trade off would be the acquisition offers, like obviously, you guys have some system of coming up with these offers to tie the automated, you're doing it within a day, maybe eventually within an hour. And there's going to be like some fair value, and then some sort of range around that where you could theoretically, you know, increase the value and probably convert more sales and decrease the value and that number goes down. Is there like a have you? Is that one of the things that you're thinking about? Like, should we be you know, we want to acquire businesses faster? Should we? Can we afford a little bit more and the acquisition offers here? Or we're actually getting like a higher rate on yeses, then we sort of expected and we're still working on these processes. So maybe we should actually be more aggressive on price?

Keith Rabois   36:38
Yeah, no, absolutely. I think you're always tuning your pricing against some accept rate, let's say, and what you're trying to dial in is the marginal impact of price against conversion, which is basically a price elasticity rate curve. And then secondly, more subtly, is at some levels of pricing, you either get positive selection bias or negative selection bias. And that's a much more complicated methodology to derive and apply. So it's a very nuanced set of measures that you're trying to optimize.

Jake   37:13
Can you elaborate a bit, I'm not sure I understand the positive, negative flexure.

Keith Rabois   37:17
So let's say let's say the price was very low, presumably the people who are more likely to take that or have less exciting businesses, because the people who know they have a great business, May, let's

say, let's say you offer people half, you know, 50, half of a EBIT, da, or like, you know, less than 150 basis points, EBIT, or whatever, however, you expressed that, I suspect you weren't at that level pricing, you wind up with massive adverse selection,

Jake   37:46
right, you're gonna get these businesses saying yes, that like sort of, probably knows,

Keith Rabois   37:51
they're not going to do that well, right to this, there's a fine line and pricing of making sure that the pricing works for us absolutely needs to. So we have a model, what we think an appropriate payback and customer acquisition cost is, and we apply that and we try to project it, and then B, you need to understand the other side of the equation, there's an equilibrium on the brand owners at some price in some prices, they're thrilled. And a huge fraction says yes. And in fact, if your accept rate does drift upwards, and it has different points in time, then you do wonder if you know, somehow or another, you're overpaying. So that's definitely an input. But then on the flip side, if you're too strict to discipline, you could accidentally walk into some adverse selection. And the quality of the businesses may not be as good as you thought they were on a whole on average across the population.

Jake   38:45
Right. So obviously, you know, you guys are going out and buying all these businesses. There's some thesis around that you're not you wouldn't just accumulate all these businesses and run them the way that they've been run to date you mentioned earlier, like you sort of have your ideal tech stack that you tried to implement. In terms of I think it was like the vet the various vendors on on Shopify and things like that you sort of, you know, you might not break everything in a business just to get it on your sort of model. But if you can sort of tweak things here and there to get closer that might be good. I heard you talk previously on another podcast about like one concept that was pretty interesting, which was the ability to match longtail influencers, on like Instagram to longtail skews and the various brands that you're working with and sort of create, you know, like,

sort of, I guess, make like a more liquid market for affiliate deals. Maybe it's like one way to think about that. Yeah.

Keith Rabois 39:37
We have a product live that already does that called Gumdrop, where influencers micro influencers you know, non people with like, call it like several 100,000 followers or something on various social platforms can select products that they think would resonate with their brand that they can promote to their audience and get paid for. So I welcome any influencer who's listening they can go sign up right now and decide what products you know fit their style. And we're happy to work with them.

Jake 40:09
Also any Shopify store owner, go get an acquisition offer, I just have to add that

Keith Rabois 40:15
if you're selling between 500k and $10 million, primarily targeting the United States, we'd love to work with you.

Jake 40:22
Great. So we've gotten those out of the way, hopefully, people will go and get their offers and

Keith Rabois 40:28
other commercial. But yeah, we can make your life easy. We found that brand owners who sell to us reduce stress in their life by 80%, overnight.

Jake 40:37
It sounds also the drive product sounds really intriguing as well, which is brand new, I think like last couple of weeks is brand

Keith Rabois 40:43
new, we launched it last week, we've seen already a couple examples of why it's attractive, too. We have a brand owner who lives in France and targets US market, she has to work all these crazy hours to keep up with the consumer base, that eventually gets tiring, so we can

solve that for him. Number two, unfortunately, we have a brand owner who has healthcare, you know, personal health care issues. And it's really hard to run a business 24/7 And you know, get appropriate treatment, rest all that stuff. So we can help solve that. So we're solving real problems that normal people have when they're trying to run a business. And then there's some people who want to invest in a different type of business, they want to start a different kind of business, it might be a real world business, like a restaurant or bar, or might be a different Shopify store, they're passionate about something new. And so we can allow them to concentrate on a new initiative, a new store a new brand new product, without losing the cash flow that they they built a lives on.

Jake 41:40
Yeah, it's really interesting. And I suspect it's gonna get a lot of demand, just while you're, you know, what you're saying seems to resonate as being you know, I can imagine it being very true, a lot of people are very attached and want to like sell their business as quickly as you can get them an offer, they're not so quickly, necessarily every time ready to just sort of turn the page, but they're probably very willing to let the thing go on autopilot and give you guys the control to go and optimize some things and very small fee, they can just relax. So it seems super intriguing. I think it'll do really well, you know, going back to the influencers, the GM dropped, I think he said it was called, are there other like that's an example of something, I think that would be very difficult, if not impossible, for like an individual, I mean, not impossible, but it would be very challenging, I think for like an individual brand to like, go and like source these influence, like these longtail influencers and pair them with their various products, like it'd be a lot, a lot of work. But if you guys have all of these brands and like build, like a network of influencers, it's just like a much more liquid marketplace and seems to make sense. Are there other things that are sort of top of list for open store, that you've sort of identified, you know, beyond this with the influencers, beyond like the tech stack, things that you guys have identified that it's just like, Okay, if we can actually build this, you know, collection of brands, we will be able to crush this, you know, various things like

whatever the thing might be, that they just could not do as an individual brand.

Keith Rabois 43:07
Yeah, there's actually many instead, many instances or associations of that. So for example, let's take a really trivial one very mundane, but you know, quite an important one, shipping cost. Basically, you know, the more packages you ship, the lower the marginal cost to ship packages are, Amazon is not paying the same that I pay either send to FedEx, or you know, or UPS or whatever. And so the more scale we have, the lower our marginal cost of shipping is compared to a very small business. And that either means lower prices to the consumer, or more profit and faster paid back to us or both.

Jake 43:43
That's a great example. It is a bit mundane, I guess. But like that seems incredibly important. That's like a very large piece of the cost for selling a given product. Are there others that come to mind beyond shipping?

Keith Rabois 43:53
Yeah, I mean, they're all over everywhere you look, there's, you know, disadvantages. So let's say marketing, customer acquisition, most of the businesses we work with, or even consider working with have not raised external capital. And there's an efficient amount of money to spend on paid acquisition, let's say Instagram, some people just don't have the proper amount of cash in their bank account. Right? If you have to wait if you have to wait constantly from last sale to reinvest on Facebook, you may be under investing in customer acquisition, we obviously can figure out you know, an economic model of what the appropriate amount of money to spend just like any startup does, you know, every startup has to run some algorithm of what payback time do they want on their customer acquisition expense against their margin? And then you know, comes up with the right answer. We are not like cash constrained but normal entrepreneurs are absolutely you know, balance sheet constrained by watching the bank account.

Jake 44:50

Yeah, so that makes sense. And I think like this is basically the town's like, kind of like the core of the business. The reason the because there are so many opportunities in this realm now. That's why you guys sort of have the strategy that you do. And you're gonna be able to build this large collection of brands, and then apply all of these optimizations across all these different areas, and hopefully make everything a lot more profitable. And you know, we'll maybe grow a lot faster before you turn on the profitable profitability stuff and whatever. But very interesting. So I want to spend, like, I think we've got like 10 minutes left, I want to spend some time on actually sort of like, more internally, talking about like, the team and the culture that you've built it open store, you've obviously you know, these are things that are sort of, probably more transferable across businesses, and you've helped lead a lot of them and, you know, advised a hell of a lot more and all like extremely successful companies we talked about last time. I'd like to talk specifically about like talent and culture. So starting with talent. You guys have grown the team, like we talked about, you know, the raising very fast and everything, but the team, I understand has also grown exceptionally quickly. I think it's like, mostly Miami based hires, most everyone works in person, I think, would be great. If you could sort of talk about that a little bit, and why you know, how and why you're growing so quickly. And, you know, I know you're a big believer in like, discovering undiscovered talent. And just curious how you went about hiring here. You've done so many times before, what you've learned from previous experiences that you've applied here, maybe in a different way than you have previously?

Keith Rabois 46:24
Sure. So yeah, we are by Eddie based company with approximately 125 employees. And we do work fully in person. And that's the norm in Miami. Any any startup really should be operating that way. But what is it, I wouldn't say, you know, we're unique on any of those dimensions. We're, we're down the middle of like successful companies, I think and how you build companies, as you work in person, you haven't you try to marshal a critical density of talent, and you put them all in the same room if you can, and you allow kind of sparks to fly, cross pollenization of ideas, you allow you watch him, you watch and observe and figure out who's really producing value, and you ask

that, you know, sort of accelerate their career and give them stronger and more challenging opportunities constantly. That's basically the formula of company building, you know, in 20 seconds, it's surprising, some people deviate from it, those deviations are not going to work out so well. But that's what we strive to do. We do hire people that we hope had or undiscovered talent, we have a mix of experiences, probably the median age feels like it's about 27, or 28. I haven't exactly surveyed it, but plus or minus, that's going to be accurate. In so in that median age, you're going to get some people with 510 15 years experience earring and some people who are dropouts. And the art is of course, finding people whose talent is not yet appreciated by the rest of the world who have incredible potential. We have several illustrations of that. What are the two more influential people in the company was hired as a very junior analyst, probably the most junior role in the company two years ago, and is now running at least half the company. So you want to find people like that as much as you can. That's the best way to build a startup. It's not easy. Assessing is surfacing candidates that have you know, different profiles, not easy assessing them, you know, mentoring them all these are challenges, but when it works, these are what yield like, you know, iconic companies, these strategies.

Jake   48:33
Yeah, it's interesting, you bring up like the junior analyst who is now running like half of the company, can you sort of connect point A to B? Like, how do you actually, I take it, this is one of those guys that your girls that you sort of talk about, like when you talk about barrels and ammo, this guys or girls, probably a barrel have some sore, like just really just getting everything done, and you sort of keep stretching and stretching and seeing where he's gonna break or she's gonna break and they never do? How do you actually sort of, it's one thing to like, find a really impressive person. But it's another to actually sort of be able to like a recognize that extremely quickly. And at each step, realize that you sort of haven't broken them and that they can keep going. And then actually sort of like giving them or just, obviously, they sort of take some of it the responsibility upon themselves, but you have to sort of give a little bit of like, room for them to continue to push from the most junior person in the company to almost running the company in a couple of

years. How does that journey like what do you do as CEO to help facilitate that journey? Or what do you sort of put in the culture that enables that journey? Just any sort of details you could talk about with that?

Keith Rabois 49:42
Yeah, so obviously, there's multiple legends but what is just challenging me it will give me them more rope in watching. You're basically looking at slope you're trying to plot in an X Y intercept point. And most people virtually everybody has some flattening of that slope at some point, but you hope you just want to keep pushing and give me more important more challenging and more complex issues to solve until you see the slope flattening. And then that's where you know, the person is pretty much gonna land for a while and be successful, you don't want to overdo it. Like, if you jump too far ahead of that curve, the person will suffocate, and you never really will find their true potential. So as long as you keep seeing the person succeed, and thrive and embrace the new latest challenge, you want to just keep expanding the scope, expanding the scope, there's like, you know, you learned like little warning signs to look for when someone's starting to slow down. But as long as you don't see those, you want to constantly expand the scope, and then figure out who to pair them with where they are, you're always learning new things. CEOs, for example, are the best examples of this. Any CEO of a startup who's never built a company before is always learning something new. First, they're learning how to run a 10 person company than a 30 person company, then a 50 person company than a 500 person company, that's always new. There's always new things, new challenges that they have to learn. And the way they learned that is they they find mentors, they find board members, you can help them grow muscles. And so you want to help pair these people with people they can learn from, so they can absorb as much as possible from the mistakes of others as well.

Jake 51:11
Really interesting. Thanks for the deep dive on that. So last question here. I know we're coming up on time. You know, in addition to being co founder and CEO here, you're also obviously investing, you know, basically full time with Founders Fund. I understand you're a dad, now

you've you're doing like Barry's classes and staying in really good shape. It's a it's quite a calendar. And I know you're like a big believer in just focusing on the absolute highest leverage activities at all times and all aspects of life basically. But especially running the company, what are like the key things that you're spending the most time out of the time that you can allocate to open store? What are the things that you're spending your time on SEO,

Keith Rabois 51:55
is really helpful, and it's really a narrow one. The constellation of people, basically, as Jack Dorsey would describe it, editing the team are the right people in the right places. And that mapping that to the biggest challenges for the company, the biggest upside and potential asymmetric downsides? Do you have the best possible people against the most important challenges and constantly thinking about that shuffling that upgrading that changing that giving up the opportunities, etc, that's by far the most important responsibility to CEO. Second, for me, I find problem solving to some part of a company or the company as a whole is running into some wall and the walls kind of persistently annoying, and try to figure out a solution. And that is enjoyable and challenging and rewarding for everybody when it works. And then third, there's some degree of strategy which is mostly a sequencing prioritization, exercise, clarity, clarity, and simplification. All of that put in one bundle and that helps other people thrive because you've taken a lot of the cognitive overload and trade offs off their plate so they can just execute without having to overthink and reverse engineer from scratch.

Jake 53:15
Awesome. Well, I know we're up on time but Keith, it was a pleasure as always, I can't wait for people to hear this episode. Hopefully they go back and listen to the last one if they didn't already. For people listening again, if you have a Shopify store, go to open dot store. Get your acquisition offer. Learn more about drive if you're an influencer. Go learn about GM drop if you want to just follow Keith. He's on Twitter at Rabo is. Thanks Keith. Appreciate the time and hope to talk soon. Pleasure