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Talking to Derek Sivers

Derek Sivers is an American entrepreneur best known for being the founder and former president of CD Baby, an online CD store for independent musicians. In this interview he talks with John Warrillow about how he started and sold CD Baby.

“...CD Baby started growing, I was actually really reluctant. I didn’t want it to grow, I didn’t want it to take off, so I never had any investors because I didn’t want any investment because I didn’t want the business to grow. So it really just grew despite my efforts to keep it small.”

CD Baby is home to more than 650,000 artists and 9 million tracks that are made available to over 100 digital services and platforms around the globe. The firm currently operates out of Portland, Oregon, with offices in New York City and London.



So Derek, tell me a little bit about this business, CD Baby.

S

ure. Well, in what way? Do you want to first know what it is?

Yeah, give us a sense of what the company did.

OK. But first to give a little context, I was just a musician selling my own CD. This is back in 1997, when there was no PayPal. PayPal didn't

exist yet and Amazon.com was just an online bookstore. And it was a different world in 1997, so if you were a musician like me trying to sell your CD to the world there was literally not a single business anywhere on the Internet that would sell your CD.

At the time they were a couple big online record stores, there was one called CDNow.com and musicboulevard.com that they were just a front end to the major labels distribution system. So if you were an independent guy trying to sell your album you couldn't get into those stores.

So CD Baby was not meant to be a business, it was really just my band's website where I built an online shopping cart to sell my CD. Which back then it was a big deal, it was hard to do, you couldn't just put a PayPal button there. It was three months of hard work, and you had to learn CGI-bin Perl programming in order to build a "buy now" button on your website. So it's about three months of hard work and about 1000 dollars in setup fees to get a merchant account with my local bank. And I had to incorporate and set up a separate bank account. And after all that work, I had a "buy now" button on my website.

Then some of my musician friends in New York City

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said "whoa dude, can you sell my CD through that thing?", and I said "yeah sure!" I was just doing it as a favor to friends. But then I started getting calls from strangers, from friends of friends, saying "hey man,

my friend Dave said you could sell my CD", I said "yeah, if you're a friend of Dave's no problem, I'll hook you up." And again, I was still just doing it as a favor, and it was still on my band's website.

Because yeah, just to emphasize, in 1997, if you were a musician trying to sell your CD on the Internet, the only way to do it was a guy named Derek,

in New York, that could do it for you. That was it. Those were your options. So as you can tell, it quickly took off and became the largest seller of independent music on the web, with over 200,000 musicians and, yeah that was it. So I ran it for ten years.

Fantastic! And were you at the end still shipping physical CDs or had it gone digital distribution like in iTunes?

No, iTunes didn't even exist until six years into the company's history. So no, CD Baby still to this day does physical shipping of CDs, and then the digital distribution aspect was added when the iTunes Music Store launched in 2003.

Apple called me into their office and said: we'd like you to come into One Infinite Loop in Cupertino and meet with us. I came in thinking I was gonna be meeting with some marketing dude, or somebody in bizdev, and instead Steve Jobs himself walked out, in full presentation mode, saying he wants to get every piece of music ever recorded in selling in the iTunes Music Store and wants to get our catalog up and selling there. For a while when iTunes was bragging that they had 4 million songs available in the iTunes Music Store, well 2 million of those were from me.

Fantastic! So you did a deal with Jobs?

Yeah. Well, with Apple, yeah. That was not fun.

What was he like as a person?

Oh horrible. There is a story in my book: A couple years ago I wrote a book called Anything You Want, that's like a quick little one hour, eighty-eight page book that Seth Godin asked me to write, where I sum up everything I learned in 10 years of starting, building and selling CD Baby. I kind of compressed all of those lessons into one hour, and made it a little book called Anything You Want. And there is a chapter in their called: the day Steve Jobs dissed

me in a keynote. So yeah, it was horrible dealing with him, and in fact at one of his famous keynote speeches personally dissed me from the stage. That was a low point.

What did he say?

You want the whole story?

Sure.

So, I told you that when we first went into Apple's office they said they want every piece of music ever recorded up and selling in the iTunes Music Store. I thought "great! That's amazing!" This is like a revolution for independent musicians which, I

don't know if you know, independent musicians have never had a break. It's always been really hard. It's like the major label artists get all the opportunities, and if you are not signed to a

label you are treated like dog food, right? And the fact that Apple, with its iTunes platform, they want every piece of music ever recorded, this was huge! It's like finally, for the first time in history indies are going to have a level playing field with majors. They'll be right there presented with, whatever, Madonna, Miles Davis and Milt Frinkenstein will all have equal placement on the iTunes Music Store. So I thought this was huge!

So we said great, we signed that contract, sent it to them and they just didn't return the signed contract. And every time I asked them, nothing. Like just stonewalled, like "hello? Anybody there? Can we begin? Hello?" Nobody replied.

So Apple did this thing where in order to upload music to the iTunes Music Store we had to use their special Apple software and it have to be on a Mac, and we have to upload music using... it had to be ripped from the original CD and we had to retype all of the song titles and bio using their software. It was going to be a lot of work for album, because I had like 200,000 albums. So it was going

"In 1997, if you were a musician trying to sell your CD on the Internet, the only way to do it was a guy named Derek, in New York, that could do it for you."

to take us 40 dollars per CD, like in labor charges to do all that work they needed us to do. So I passed on that expense to the musicians saying: if you want us to get your CD up and selling in the iTunes Music Store were going to have to pull it from the shelves and do all this work, and upload it and re-type everything and re-upload it on Mac software, so I'm going to have to charge you 40 dollars to do this, to meet Apple's standards. So if you want to be up and selling on the iTunes Music Store, just pay \$40 here and I'll take care of the rest. So 5000 musicians did that. So 200,000 bucks, prepaid in advance which helped me buy all the Apple equipment and hire the people ready to upload to Apple, but Apple still wasn't replying to us.

So I had loudly announced this thing the day after Steve Jobs said they wanted every piece of music ever recorded. I loudly announced it to my clientele, everybody paid their 40 bucks and I sat there waiting for Apple to return their contract. And they didn't.

On the other hand, the good thing was, because I announced this, Yahoo Music and Rhapsody and Napster and Amazon and all these other services came to us asking for the entire CD Baby catalog, so that was cool. So all of these musicians were up and selling in all of these other stores, everybody but Apple.

And I guess Apple was starting to catch some flak for this. Like Napster has an online catalog of 4 million songs, why does Apple only have 1 million? So I guess Steve Jobs was starting to catch some flak for this, like why does Apple not have the big catalog. So he went and did one of his giant WWDC something keynote speeches and he got up on stage and he said "you know, people have been asking why Apple doesn't have that many songs as the other guys. That's because we feel that the major labels provide a valuable service. They fil-

ter the best of the best and only provide you with the best music. Do you know there is a service out there where for 40 dollars just anyone can upload their music to these other services? Well, we don't want that stuff here. No, we feel that the record labels to a valuable job by editing, and not just letting anybody in."

My jaw dropped. You said you wanted every piece of music ever recorded! And so I was angry for the day. And then I went back to all my clients and I said "I'm sorry, Steve Jobs has changed his mind and does not want your music." So I refunded everybody's \$40, I lost 200,000 bucks that day, because I had already spent it on the Apple equipment necessary to do their thing. I refunded everybody's 40 bucks and

said "I'm sorry everybody, I will never again promise something that is out of my control. I thought that I had a promise from Apple that I could send them your music, but they changed

their mind, so here is your \$40 back."

Did you ever consummate the deal with Apple?

The very next day, I got the signed contract back from Apple, saying "okay, here is our FTP password, please start sending us the music."

To this day, I don't own any Apple products. No iPhone, no Macs.

There you go. So talk to us about the sale of CD Baby. Obviously it had had a successful run. How big was a company when you went to sell, in terms of revenue or some proxy for size?

Sure. Actually I don't think of these numbers, but in preparation for this call I thought you might want to know, so I pulled up the numbers as they were the day I sold the company.

Gross revenue: \$139 million.

The amount of money I had paid out directly to the musicians was \$83 million.

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I also had a little web hosting company on the side that we never really talked about, but it was bundled together with CD Baby as part of the sale. It was called the Host Baby. And Host Baby had brought in \$7.5 million in revenue.

And total music sold to customers was \$73 million dollars.

So that's what the numbers looked like the day I sold the company.

And talk to us about the process of selling. What was the triggering event that makes you want to sell first of all?

Okay, so I got to explain to your audience that the whole situation was a little unique. That's why it took a little time at the beginning of this call to give the full context that I was really just a musician selling my own CD.

The point was that I never meant to start a business, like I wasn't trying to start a business. I didn't need the money, I was making my full-time living as a professional musician. Gigging, producing people's records, playing on people's records, going on tour. So I was actually living the dream, like this is all I had ever wanted since I was 14 years old, was to be professional musician. And I was doing it, I was living the dream. I even bought a house with the money I make touring. So the last thing I wanted was for something to get in between me and my career as a musician, right?

So when CD Baby started growing, I was actually really reluctant. I didn't want it to grow, I didn't want it to take off, so I never had any investors because I didn't want any investment because I didn't want to business to grow. So it's really just

grew despite my efforts to keep it small. So because I wasn't doing it for the money, and again it's really important that I had no investors, there was nobody waiting for some big return from me, I have never ever ever planned on selling the company.

You remember the first dot-com boom, how they were just like IPOs everywhere and so much money being thrown at anything that had a .com at the end. So I turned down infinite numbers of offers to buy the company, because they started coming in almost as soon as I started the company. Like, as soon as it started going well I would get like a few offers a week from people wanting to buy the company. And I just said no. Out of the question, it's not for sale. And I ended up just telling my customer service team to just don't even send those emails or calls to me. The answer is no. If you get somebody on the phone that's asking about acquisitions or investments, just tell them no. No thank you, we don't need investors, we're not looking to sell, goodbye.

So that was the answer for 10 years. And I thoroughly meant it. In fact, even NPR, National Public Radio, did an interview with me where they asked that question on the air, like "will you ever sell the company?" I said no, absolutely not, I plan on doing this until I die. This is just my hobby. And I really meant it. So yeah, after 10 years hit the point where... well you will probably want to know that triggering events that made me decide to sell in the first place, right?

Read the remaining interview online at <https://sivers.org/2015-10-built2sell>.

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