



## Interview with Derek Sivers from CD Baby



**Adrian Bye:** Today, we're here with Derek who founded CD Baby, and Derek's got quite a story. We were actually just talking a little bit before the interview started and he's a little bit of a traveler like I am.

Derek, take it away. Tell us about yourself.

**Derek Sivers:** Just open-ended like that, huh? Alright.

My name is Derek Sivers. I'm a musician really. I decided when I was 14 years old that I was going to do nothing but music for life and kind of stuck with it. Last time I had a job was 1992. I've been making a full-time living in music since then. Around 1997, I was selling my own CD at live shows, and sold about 1,500 copies of my CD at shows before I decided I wanted to try to get it up and sell it online because I was doing this radio campaign at the time. My CD was at number one at college radio stations spread around the US. So it was in New Mexico, Maine and Alaska, my CD was number one. I wanted to get it up and selling online so people from those places could buy it. In 1997, it was a very different world online. There

was no PayPal so there was no way to accept payments online. Amazon only sold books. There was literally, as a musician, not a single place online you could sell your CD except maybe eBay, but that's not really where people shopped for music. So I went calling around the big online record stores and asked if I could sell my CD through them. They said, "We're just the frontends to the major label's distribution system," so the only way you can be for sale on CDNOW, for example, is if you're signed to a major through a major distribution. I said, "Well, that sucks. Can't I just send you a box of CDs, and you sell it and pay me?" They just laughed and said, "Look, kid. It doesn't work that way, you know?"

So I really just set up CD Baby to scratch my own itch just to sell my own CD because there was just nowhere else to do it. I never even really meant to start a business. To be clear, I didn't start CD Baby necessarily. It was just on my band's website. I went through the three months of hell to get my own credit card merchant account. I filled out all the forms, put up \$1,000 in setup fees. They actually had to send an inspector out to my location to make sure I was a valid business. I had to set up a business.

**Adrian Bye:** Your location was a bedroom in your house, right?

**Derek Sivers:** Exactly and they really did send out an inspector. Luckily, I had it set up as a recording studio so I had to lie and say that I was taking credit card payments for my recording studio because they didn't allow people to take credit card payments online at the time. I had to go through three months of red tape in setup and then I had to learn how to create a shopping cart online which also was pretty difficult in '97. I had to copy examples out of books, cgi-bin, perl scripts and all that stuff. Man, after three months of hard work, I

had a Buy Now button on my website. That's when some of my fellow musicians in New York said, "Hey, could you sell my CD through that?" I said, "Sure, I guess." So what later became CD Baby really was just me doing a favor for some friends around New York.

**Adrian Bye:** How big did CD Baby get to?

**Derek Sivers:** Let's see. I started it the end of '97 and it just had maybe 10 or 20 musicians on it at first. But because I was the only one doing anything like that, word-of-mouth was spreading around musicians like, "If you want to sell your CDs online, there's this guy, Derek, who can hook it up." Talk about business startup environments. There was just no competition. I was the only guy that would get your CD up and selling online.



I think it was in a few years, CD Baby was the largest seller of independent music online and then by the time I sold it 10 years later in 2008, we'd done about \$100 million in sales for 150,000 musicians.

**Adrian Bye:** What was like sales per year?

**Derek Sivers:** About USD 20 million.

**Adrian Bye:** So you sold for \$22 million. You got that one time's revenue.

**Derek Sivers:** Yes, that was doing a net profit of about \$4 million a year so it was about a six or seven times net.

**Adrian Bye:** Nice.

**Derek Sivers:** Yes.

**Adrian Bye:** You just walked away? I mean have you been doing more business stuff since then or has that been your main thing?

**Derek Sivers:** That was main thing. I'm setting up something new right now. I sold it for personal reasons. It's funny that a lot of people assume that the reason you're doing something is for the money and the reason you want an exit is for the money. But for me, it was neither. I kind of told the longer version of why I started because it was really just me doing a favor for friends. I didn't think that there was any money in this. It's the same thing with getting out. The healthy profit of \$4 million a year, I didn't really need the money. Do you know what I mean? I had no investors so that was 100% mine. Just really for personal reasons, I hit this point where in the end of 2007, I did a complete rewrite of the software from the ground up, fixed all of the mistakes, bugs and all of my regrets, and made this amazing version of what I felt was really everything that I ever wanted the website to be. At the end of 2007, I finished, I launched it and it went well, and I really had this sense of completion like I'm done. I don't know what else to do with this thing. It got to the point where I felt my clients were actually more ambitious than I was. They were wanting to grow their career and grow, grow, grow, and I didn't want to grow anymore. I just felt like I'm done. That's it for me.

It was Seth Godin actually who I'm sure your listeners probably know – Seth Godin, the author of a bunch of books like the *Purple Cow*.

**Adrian Bye:** Right, most people would've heard of him.

**Derek Sivers:** Yes, he's been kind of a mentor to me over the years and when I told him about this situation, he's the one who actually encouraged me to sell. He said, "You know, if you care about your clients and your company, you should sell," because the idea was that I was doing my company a disservice by remaining at the helm when I was feeling completely unambitious about it.

**Adrian Bye:** I read somewhere that you had it totally automated by that point. You could've just sat back and let it keep going, couldn't you?

**Derek Sivers:** Exactly and that's what I was doing for the rest of 2007 and 2008. I hadn't even been to the office in a few years. It was just going. Let's just say that I really had no desire to grow it. I didn't want to do anything about it. I didn't want to improve it so much. I just kind of felt like sitting back and doing nothing.

**Adrian Bye:** Could it have kept running fairly comfortably, generating \$4 million profit a year the way it was?

**Derek Sivers:** Yes, it would have. Yes.

**Adrian Bye:** To sell it for \$22 million if it can make \$4 million to \$5 million a year in profit, could you have gotten a lot better for it?

**Derek Sivers:** I could've. That's just it. When I decided to sell, it was prompted because I got three offers in one week. For the whole time I was running the company, I would always, every month or so, get some VC firm somewhere offering to buy or some competitor offering to buy. I always just shooed them away and said, "No," but didn't even entertain the notion. But in January 2008 in one single week, I got three calls, told them all, "No," and it was later that weekend I started thinking about it, like you know what, I've just been saying, "No," for 10 years but maybe. So I called them all back, said, "Yes," and let them bid against each other. Amazon was in the running and was actually willing to offer much more money but I felt that Disc Makers, the company that I chose, I'd known them for seven years and they had already been dealing with independent musicians for many more years than that. I felt that they would do a better job of taking care of my clients like they would know my clientele and understand them better than Amazon. Yes, I chose Disc Makers for less money because I just felt that my clients would be in better hands.

**Adrian Bye:** Can I ask? Was it a lot less? Don't tell me if you don't want to answer that.

**Derek Sivers:** It's hard to say because with Amazon, we were still negotiating. There was no kind of final, final offer. But it was many millions less. After a certain point, what does it really matter? What's the difference between \$22 million and \$32 million, you know? What do you do with it anyway? I decided to give it all away anyway so it doesn't really matter.

**Adrian Bye:** You decided to give all the money away?

**Derek Sivers:** Yes. The funny thing is after we had a handshake deal and agreed upon price, there were a few months of paperwork to go before the deal was done. I was talking with my lawyer and accountant, and kind of feeling a little overwhelmed like what the hell do you do with \$22 million; that was the final sales price. I told them, "I don't even really want the money. I really wanted it all to go to charity anyway. I just want to know that I don't have to get a job at some point later in life. I want to know that I'm taken care of, but I think it could be harmful for me to have \$20 million." So they told about this thing. I don't know if other countries

have this but the US has something called the charitable remainder unitrust which is a charitable trust you can set up that pays out to the settler 5% of its value per year for life and then when you die, it all goes to charity. It's usually set up by people at retirement age who want to give everything away but want to make sure that they still have a little trickle coming in to help pay for their basic cost of living. So I just set that up decades earlier than most people do. What I did – and it was kind of a cool move – months before I sold the company, I actually transferred the ownership of the whole company as much as possible into this charitable trust. I set up the charitable trust, transferred the company's ownership into the trust so that when Disc Makers bought the company, they didn't actually buy it from me. They bought it from the trust, which meant that all of that money got to go into the trust, tax-free which made no difference to me except it means that millions more will go to charity in the end, and then I just get paid out this 5% trickle for the rest of my life, which is enough for me.

**Adrian Bye:** So they gave you \$1 million a year to go travel and have fun all over the world in this trust, and then the money just then goes to charity when you're done. I mean what a great deal.

**Derek Sivers:** Yes and it means that it gets to grow tax-free, too. The whole time, it's invested in whatever passive stock investments and, because it's already a charitable vehicle, it gets to grow tax-free for the rest of my life, too. In the end, it just felt like that's more the gift to go to. The charity is set up for music education so it's all going to go to music education when I die.

**Adrian Bye:** What particular types of music education?

**Derek Sivers:** I don't know yet. Who knows whether that'll be later tonight if I get hit by a bus or if it'll be 100 years from now when I'm 140 years old? I had to just leave it ambiguous for the trustee to handle at the time.

**Adrian Bye:** The executives of your estate then will figure out what will be an appropriate type of music education that you would've approved of and then the money will go to that?

**Derek Sivers:** Yes. I named a few charities already, but who knows if they'll be around when I die or not.

**Adrian Bye:** That's really interesting. I've never heard a story like this.

**Derek Sivers:** Oh, thanks. Well, it's funny. You never have to do things the normal way.

**Adrian Bye:** Right.

**Derek Sivers:** I think maybe just because I've been a rebellious musician my whole life, I didn't start my company in the normal way, I didn't run it in a normal way, and so doing this, I think we're all free to kind of shape the world in our image and I have this thing where I don't want \$20 million. You couldn't pay me to own a Ferrari. I don't want a 19-bedroom mansion. I think that would be horrible. I just want a decent life, so I liked the idea of getting as much of it out of my hands as possible as long as I was taken care of for life. I don't know. I was really thrilled when I found this vehicle.

**Adrian Bye:** But you won't undo it if you changed your mind or is it the way it is?

**Derek Sivers:** No, I can't. It's gone. Months before the company was sold when I signed the company into the charity, it was gone. It was no longer mine. The money is not mine and I can't get it back if I want to. Same thing with the new company I'm setting up, I'm actually doing the same thing for the new company. I

set up a trust first, and the trust is actually starting the new company and assigning me as the Director of it so that even my new company that I'll be spending the next 10 years working on, I'm not the owner of that one either. A charitable trust owns that as well. So I like this idea.

**Adrian Bye:** Do you feel like would you have gone and done like crazy stuff with the money?



**Derek Sivers:** Maybe. That's just it. It was a little bit protecting myself from my future self meaning I know some friends of mine that have sold their companies in the past. A friend of mine sold his company for like \$35 million about five years ago and I catch him doing stupid things like talking about money, hearing phrases like, "Only \$10 million," you know?

"We're thinking of buying this building. It's only \$10 million," and that's for personal use, not for business use. I never wanted to be one of those people. I think that it can be damaging to the psyche if you look at your bank account and you see that there's \$20 million in there at your full discretion to use for anything you want. I think that could just be harmful and would make you start to devalue it in your head or start to do stupid things like chartering private jets instead of just taking a regular business class seat. Do you know what I mean? You start throwing it away because you can. So I liked the idea of intentionally limiting myself so that I didn't even have that kind of stupid money to throw away.

**Adrian Bye:** Have you ever thought like, say, some serious accident, or something happened to a family friend or someone in your family that you could've saved with that money and then you can't?

**Derek Sivers:** Well, that's why I had to say, "Okay, is this 5% per year enough?" Let's admit it. \$1 million a year for life is enough for almost anything that can possibly come up short of some rare disease that nobody's ever heard of and the only thing that's going to solve it is \$10 million and \$1 million won't do it. If it really comes down to that, I could probably take out a loan.

**Adrian Bye:** Oh, right.

**Derek Sivers:** Do you know what I mean? There's a beautiful quote from Joseph Heller, the author who wrote the book *Catch-22* who was hanging out with Kurt Vonnegut. The two of them were friends and they were at some giant multimillionaire's party in the Hamptons in Long Island. Kurt Vonnegut went up to Joseph Heller and said, "This guy has everything, doesn't he?" Joseph Heller said, "Well, I've got one thing that he'll never have – enough." I like that idea of "enough".

**Adrian Bye:** Fair enough.

I've not had an interview like this before. You are the first.

**Derek Sivers:** Hey, you warned me before we started that you liked to speak bluntly so we can talk about anything.

**Adrian Bye:** Yes. No, I'm fascinated. I really am.

What I'm having trouble reconciling is that you're a guy that you did go out and build a \$20-million business. You did go, and then sell it and make a lot of money. You are going out to start another business. It's not like you're working in a Starbucks or something like that. I guess your persona or the impression you give is that you're a laidback guy. But if you've done that kind of stuff, you can't be that laidback.

**Derek Sivers:** Oh, no. I'm definitely not laidback. It's just that I realize that money interests me. I use money as a barometer of measuring the value of what I'm doing like if I'm doing something valuable, that means that enough people find it valuable that they're opening their wallets to pay for it. That's how I can tell it's valuable short of, say, something like education. You can do charitable things where their value is not measured in money but for the most part with anything entrepreneurial, I think you can probably measure its value in money. If the public is finding it valuable, they'll open their wallets to pay for it. So I still use money as a measurement, and money inspires me but then I realize I didn't necessarily want it for myself. I just wanted to earn it, not have it. For some weird reason, the idea of earning it but then giving it to others excites me more than earning it and keeping it for myself which makes me feel kind of icky. Yes, I'm definitely not laidback. I have always been a workaholic, but it's just separating the idea of needing to keep the money from being ambitious. You can be ambitious without wanting money. That's all.

**Adrian Bye:** Very interesting. What is the general reaction of people when you tell them about this?

**Derek Sivers:** My lawyer was the funniest one. He was the one that suggested the way that I sold my company, transferring and getting it into the charitable trust first but just over and over again, he said, "You understand that it'll be gone. You can't change your mind. This is irreversible. The company is no longer yours. You don't own it anymore. The trust is selling it, not you. You get that, right? This is irreversible. When you sign this piece of paper..." on and on and on. I said, "Yes, I totally get it. Then when I came back to him months later and said, "You know, I'm going to be starting this new company and I'd like to do that again from scratch like I'd like to set up a trust first and have the trust own the company from day one." Again, he said, "Okay. You realize this means you're going to be working for the next 10 or whatever years day and night to build your new company, and you're not going to earn a dime. You understand that, right?" I went, "Yes," and he just laughed.

**Adrian Bye:** In the new company, let's say that you turn that into a \$100 million company and then sell it. Does that mean the proceeds then go into the new trust for music education?

**Derek Sivers:** Yes, exactly and even better, just all along even all the net profits of the company aren't mine that I'll just get \$1 a year or whatever for being the Director. But even the profits along the way won't go to me. I've kind of resigned my life to living on that 5% that I've described earlier so even the profits of the new company won't go to me.

**Adrian Bye:** I've talked to one friend who's already made his money for a living for the rest of his life and one comment that he had was that he felt like in some ways, he'd lost his edge a little bit because he already had everything he needed.

**Derek Sivers:** Yes, definitely. I find that sometimes, that feeling – just in the past year since I sold CD Baby – a few times like something with my new company has come down to some real work and find myself going, “Eh, I don’t have to.” It is a weird feeling knowing you could just sit there and basically do the cliché of just drinking margaritas for the rest of your life.

Here’s the turning point to me somewhere in there. Let’s see. This was a few months before the sale of the company was done but it was already basically done, just papers weren’t signed yet, and I took a vacation. I went off to the southern tip of Japan, took a train, to a bus, to a ferry, to a volcano off the southern tip of Kyushu, like just got as remote as I could get, checked myself into some hot springs spa and just sat there melting in this spa, looking out at the world. I just sat there for a few days of just absolute melting, empty-minded bliss. But after only the second or third day...

**Adrian Bye:** You’re thinking like what the hell am I doing here, right?

**Derek Sivers:** Yes. Well, back in my room, I had this fascinating book written by Charlie Munger, who is Warren Buffet’s partner.

**Adrian Bye:** Right.

**Derek Sivers:** He wrote this amazing book that was just sparking off all sorts of ideas in me and I wanted to try out these ideas. It was kind of like fascinating approaches to business and certain ways of measuring things. I wanted to try it out. I got a little sad that I had no company in which to try out these ideas. That’s when I realized, you know what, the reason to have a company, we always think we’re doing it for the money, we’re doing it for the glory or whatever. But your company is kind of like a laboratory, kind of like the classic the guy who has a garage where he goes to tinker with his go-carts or a basement where you’ve got your model train set laid out. It’s kind of like your laboratory where you go to experiment, play, tinker and test things. When you own your own company, it’s kind of like that. Every time you hear some business concept or idea that excites you, you can go try it in your company.

**Adrian Bye:** Right.

**Derek Sivers:** So there I was melting in some spa in Japan, going, “I want a company again just because...” I don’t really care about the money. I just want a place to tinker, try my ideas and see if they work.

**Adrian Bye:** I read the memoirs of John D. Rockefeller who I guess spent a lot of time living just up north of where you are now in New York and one of the things he talked about was one of the things that excited him the most about business. It was being around young men and working on interesting business ideas.

**Derek Sivers:** That’s cool. I didn’t know that.

There was a quote from George Soros. Let’s see if I can find it. I wrote it down once. Oh, yes. Cool. Here we go. I found it. George Soros was being interviewed and the interviewer said, “Have your billions made you happy?” He said, “I’m reasonably happy but the money’s not the point. It’s an indication that I’ve succeeded in a grand adventure of understanding reality.”

**Adrian Bye:** Oh, that’s good.

**Derek Sivers:** I like that. It's like all these theories that we hear about. You read a business book. It's all just theories about the world, how people work, how motivation works, what makes people buy and what makes people do certain things. It's all just testing the way the world works and owning your own company is just a great way to test these theories about the world. That's kind of what I meant about 10 minutes ago when I said, "I'm still really interested in money as a measure, a measure that my experiments are successful, that I'm doing something that's of value to the world. Actually, I don't want to keep it, but it's still an interesting measure that you're doing something valuable."

**Adrian Bye:** Very, very interesting.

Your first company, you didn't have any funding for. Now, you've given your money away. Are you going to have funding for your next company or is this going to be built from the ground up as well?

**Derek Sivers:** Built from the ground up. What I did to set up the new trust is just transferring a small amount of money into the fund of the trust and that small amount will be all that's



in there to set up the new company but setting it up like a holding company. If my first little experiment does well, there'll be funds in there to fund the next one, etc. I'm going to always aim to do it without any investors unless I do something stupid like start an airline or whatever. I don't really see that. I'm happy working on really small-scale. I never really wanted to do that thing of starting a grand company and raising many millions of dollars to start something huge. I like the idea of tinkering with small things that don't need funding.

**Adrian Bye:** I'm interested to ask more on your thoughts on that. Can you talk about like how much funds you're actually putting in, what you're setting aside and how you'll grow it? I'm really interested to understand that if you're willing to talk about it.

**Derek Sivers:** Sure. Well, I'm just doing this really naively. We can always try to predict how the future will go, but I might be massively wrong. I mean we'll find out.

CD Baby, I started with \$500. It's funny when I think about it, the only money I put into CD Baby was that \$500 and that went to \$99 for a copy of Dreamweaver to build the site – the HTML builder– \$20 for my first month of webhosting and then \$375 for that fucking SSL Certificate through VeriSign. It was like biggest startup expense of \$375 for that SSL Certificate.

**Adrian Bye:** My friend, Mark Shuttleworth would like to thank you for your contribution to that market. VeriSign bought him for \$575 million.



**Derek Sivers:** Exactly.

**Adrian Bye:** He does fly around in private planes. and I'm sure he really appreciates your contribution.

**Derek Sivers:** Actually, I just switched from Mac back to Linux because Ubuntu has become so amazing. I'm a huge fan of Mark's. He's a hero of mine.

Yes, so that was my entire money that I put into CD Baby. I just grew it from that \$500, I think the first month it lost money. I only made \$300 the first month but the second month in business, I made \$700 and that was profitable. Even, let's say, like my 11<sup>th</sup> month in business, I probably only made \$1,000. It grew really slowly like that but I was net profitable. I'm cool with that kind of slow growth.

My new company Muckwork is a remote assistance firm. For anybody who read *The 4-Hour Workweek*, you know the idea of the virtual assistance firms in India that have people that are well versed in helping you as if you were hiring an assistant but just hiring them by the hour or literally by the minute for whatever you need help with. An assistant sits at a computer somewhere in the world and you outsource the things you need help with to them instead of needing to hire a person that sits next to you in your office that works 9:00 to 5:00, 40 hours a week. So I was setting up a virtual assistance firm for musicians with people working from home worldwide that are already well-trained to help musicians with the things they need help with. If a musician needs some help whether it's booking some gigs, copywriting their songs or updating their MySpace page, they can just ask somebody from Muckwork to help them out with it.

The startup costs are really nothing, just incorporating and I'm doing the programming myself. At least, my idea now is that just I'm putting \$5,000 into the trust to fund maybe just the first month of business then hopefully the first month will be profitable and I can just grow it slowly after that.

**Adrian Bye:** What happens if it's not?

**Derek Sivers:** Yes. I'll put another few thousand dollars in. At a certain point if it's still not profitable then I guess you could say that that experiment didn't go well.

**Adrian Bye:** What you could potentially be doing here is a cap of up to \$10,000 you'll put into this, and then if that hasn't worked out then you'll shut it down and move onto the next thing?

**Derek Sivers:** Perhaps although it's just a matter of time, isn't it? Just because something hasn't worked yet doesn't mean it never will. So I could keep trying. I guess we'll just see what happens over the next year. But I'm quite committed to it. Business aside, we have certain interests in life. I guess at a certain point, it seems Mark Shuttleworth got fascinated with creating a new Linux distribution, and I don't think he was doing it for the money. It's just something that was probably an interest of his that he was fascinated with. I'm guessing. I don't know if you have other insight to that.

**Adrian Bye:** He doesn't publicly say. Actually, I won't comment.

**Derek Sivers:** Okay.

For the last 11 years, I was really just geeked out on, completely obsessed with how to sell music and that was my fascination so CD Baby just grew out of the fact that I was fascinated with, first, how to sell my own music then how to sell other people's music. I spent 11 years with almost every waking thought spent on how do I

sell music. I'm not really interested in that anymore so what's really fascinating me now is this combination of like how do I get things done through others, not trying to do everything myself but how do I work with other people to get things done. How do I work with people especially remotely? So that – what do you call it – crowd sourcing or just the getting things done...

**Adrian Bye:** What you're doing is niche in the concept. I mean I actually saw a new startup that is doing exactly what you're talking about and I guess I'm sure there're others out there providing, I guess, an inter-space onto the hoards of offshore people that want to do work.

**Derek Sivers:** Yes.

**Adrian Bye:** But what you're doing which I've never heard before is niching that and so therefore, you'll have teams that become very closely-trained and understand the needs of outsiders and hopefully be able to do a high-followed job.

**Derek Sivers:** Exactly.

**Adrian Bye:** I think also then you have distribution to clients because you must have deep relationships within the music industry.

**Derek Sivers:** Exactly. When I sold CD Baby, I got to keep my client and customer-base. Kind of condition number one of the sale is that I get to keep my clients.

**Adrian Bye:** How do you mean you got to keep them? You got the e-mail list or what?

**Derek Sivers:** Yes, it's just basically the day I sold the company. The minute the wire transfer went through, I did one last dump of the entire database and I got to keep that, and continue to talk with whatever clients and customers were signed up to CD Baby as of that moment. I'm free to continue talking. So now, I guess you could say it's a shared database up until that point and only the people that signed up...

**Adrian Bye:** Alright. You should save the world. Now, come on! That's a pretty smart business move that you've done there and I have not heard anyone tell me that they've done that move.

**Derek Sivers:** Oh! I can explain. When I was thinking of selling, I called back the companies that were interested and I said, "Alright, here's my condition. I want to keep my clients because I'm planning on starting another company that's going to be helping musicians so I also need a very narrow non-compete because I need you to understand that I'm going to be doing this next company that's also going to be helping the same musicians, even helping them with very similar things, and we're probably going to end up working side by side. I won't compete directly. I won't be starting another online music store. I won't be starting another webhosting company. But I'll be helping the same musicians with promotion, outsourcing and whatnot." It was just a condition of the sale.

**Adrian Bye:** So they all know you, so you send an e-mail out to your list, they all respond and all that sort of stuff?

**Derek Sivers:** Exactly. In fact, the cool thing is the sale of the company kind of symbolically came out from behind the veil – whatever – the curtain of CD Baby and...

**Adrian Bye:** Oh, did they not know who you were before?

**Derek Sivers:** A lot of them did. I mean they've been receiving e-mails for years that had my name signed at the bottom but it was only about CD Baby business. If you look at my blog now, sivers.org, it's still stuff that's useful for musicians but now it's really just kind of me just communicating not as Derek, CD Baby guy but just Derek, some guy that's just out there trying to help musicians with various things. I'm actually more in touch with my clients than ever, just in a more ambiguous way for now.



**Adrian Bye:** There's almost no chance then when you get started that it won't work?

**Derek Sivers:** Yes, except that I'm so...

**Adrian Bye:** You have the two hardest things. One, you have the distribution, and then the second thing you have is the relationship and a level of trust with the people in that distribution.

**Derek Sivers:** Exactly.

**Adrian Bye:** So as long as you don't totally screw it up right from the start, it's going to be pretty hard for you not to make it work.

**Derek Sivers:** Exactly, unless it's really something that the market just doesn't want. But I think they do need it and yes, because I have 150,000 musician clients that I think need it. Probably 10,000 or 20,000 of them will agree. I've got my client-base built in for my next business. Maybe that's why I'm pretty confident that it will work and even if it doesn't at first, I'm so fascinated

with this idea of outsourcing and getting things done through others that maybe I'm going to stick with it for years. Even if the first incarnation doesn't work, I'm just going to keep at it.

**Adrian Bye:** Even through times when there's real work you've got to do?

**Derek Sivers:** Yes. Well, that's the hard part. Although, it's funny though. This idea of saying, "How much of it do I need to do myself?" I enjoy doing the programming myself but maybe, for example, I won't be President. Maybe I'll just be the guy that kind of funds it, helps bring the client-base and from day one, finds

somebody else to be President of it. Well, let's say from day two. I guess since I won't be able to pay them from day one, I'll just kind of get that first little 1% going and then hand it off to somebody else to run it.

**Adrian Bye:** There are thousands of ambitious guys in New York City that you could probably bring on to do something like that.

**Derek Sivers:** Exactly.

**Adrian Bye:** The other way you could even do that is offer that out to your 150,000 musicians. There's probably a guy or two in there that'd be perfect for it.

**Derek Sivers:** Yes, definitely.

**Adrian Bye:** I'm fascinated. I've not heard anyone talk like you before, and I've talked to a lot of people.

**Derek Sivers:** Thanks.

**Adrian Bye:** This is something you want to do like traveling around the world, too, right? Do you intend to build an office, a theme and stuff like that or is this going to be you globetrotting?

**Derek Sivers:** In fact, part of the reason that I left CD Baby is I hated having the responsibility. I had 85 employees, and they were the main reason I left. I see that you've interviewed Tony from Zappos.

**Adrian Bye:** Yes.

**Derek Sivers:** He talks about how at his previous company before Zappos, he hated the fact that he let the internal culture get corrupted to the point where he hated going into the office himself.

**Adrian Bye:** Then he designed Zappos to be the company that he wanted to be with forever.

**Derek Sivers:** Exactly. So CD Baby for the first eight of its 10 years, it had that awesome culture. But I guess I don't know about the last two years. For whatever weird balance of reasons I'm analyzing to death myself, the internal culture got corrupted to the point where I hated it and then it became like the metaphorical rotten apple that spoils the barrel, like a few rotten apples spoil the whole barrel and pretty soon, I felt like the only way I could possibly continue with the company was either to fire everybody and hire a new crew, fire everybody and like move the company all the way to Texas or something as a way of getting out of town and avoiding all that bad blood, and people that will hate me at the old one because it got so corrupt, or just selling it, walking away and making it not my problem anymore.

**Adrian Bye:** Do you think that was the real reason that you sold?

**Derek Sivers:** That was a huge part of it, yes. I think if I really had the same lovey-dovey kind of relationship with my employees that I had two years before, I probably would've stuck it out longer like we would've felt that we were in this together, maybe I would've assigned some more control over to them and stepped back a little bit myself as the company could've continued under my ownership. But it was really because things had gotten so bad with the employees that they hated me, I hated them and we really weren't on speaking terms. I really didn't speak to my employees for the last year and a half of the company. It was that bad.

So Muckwork, my new company, I'm going to do an experiment. I'm going to see if I can do a company with no employees and have everybody, even the management, be freelance people offering their time that aren't bound to me but whoever wants to do the task. It's kind of this experiment in crowd sourcing that may go horribly wrong but I guess we can talk about that in a couple of years and see how it went, if you're interested.

**Adrian Bye:** Yes, I mean very much so. Wow! I'm shocked.

Your style comes across as a soft style. Yes.

**Derek Sivers:** It's the classic California parent example. It's too soft. I can't think of what movies. Say, Willy Wonka with Veruca Salt – the kid that gets everything becomes the worst brat of all. I went so above and beyond to try to keep all the employees so happy that I actually over-empowered them to the point where the same month we won the award. *Oregon Magazine, Portland Magazine* or something like that named CD Baby the number one best place to work in Portland and did this big feature-length article about us how it's the greatest place to work in Portland, and the people who voted us into that place were the employees themselves. That same month, they got so empowered that they signed a big, giant manifesto about everything else that they wanted to change about the company, basically wanted me to get out of the way, run the company the way that they wanted it, stop telling them what to do and get out of their way. It got a little bit kind of too... What do you call it? I think there was a psychology term for it like "the rising tide of expectations" or something like that.

**Adrian Bye:** Dude, I want to like come over there and give you a big hug. I'm feeling lots of emotions.

**Derek Sivers:** Well, the funny thing is I know that a lot of this was my fault. Of course, your friends that care about you, they'll be on your side. They'll say, "Man, I can't believe what those bastards are doing to you. They're so ungrateful." But at the same time, I know that I'm the guy that created that internal culture.

**Adrian Bye:** Right, but that stuff can be fixed. There're people you can hire that can help with all those sorts of things. I mean that's not an area that I know barely at all, so I couldn't tell you how it could be done but there are certainly people that do understand those things. You never thought to bring in like an organization development consultant or someone like that to help you with it?

**Derek Sivers:** I did, but I think that's where the timing thing happened where if it would've gotten corrupt a few years earlier when I was still deeply passionate about selling music and deeply passionate about CD Baby then of course I would've just found a way to fix it. But I think that because things got really bad around year nine of 10, I think it happened about the time that I was getting a little sick of doing it anyway and it's just like, "You know what, I think that..."

**Adrian Bye:** What was the employees' reaction when you did the sale?

**Derek Sivers:** I don't know because I wasn't thinking of them. There was this point at the end of... Sorry. I don't want to go into this kind of like crying-into-my-beer story. But there was this point where it was mid-2007 and the tide internally had turned so against me that we had this every week kind of company meeting. Every week, we'd get together and talk about things. I was out of town that week, and we had always recorded the meetings on a microphone for the sake of those who couldn't make it. It was saved as an MP3 on a hard drive later so whoever wasn't there could listen to it. This time, I was the one who wasn't there, and a day later when I logged into the company hard drive and listened to the meeting, it was the Vice-President of the company. He actually used to be my roommate. When he first moved to town, I put him up at my place for a few months. He was the guy that I felt was my best friend inside the company. He was the one

leading the meeting where he kind of led the company meeting and said, "Alright, guys. Basically this job sucks; this place sucks. Derek's off trotting the world with his ivory backscratcher and we're here. He's living off the sweat of our brows." Pretty soon, he kind of riled up the crowd who was going, "Fuck him!" Here is me, sitting here, listening to this MP3 of my entire company basically calling me every name and yelling, "Fuck him." When somebody would say, "Fuck him," the rest of everybody would applaud and cheer. I was just listening to this, going, "Wow, I'm done." So I sent an e-mail to the company. I was like, "You guys, I'm through with you. I've done everything I could to try to make you happy, and I don't know what else to do at this point. I'm not speaking to you anymore. I will continue to do the programming. You guys are on your own. You won't hear from me ever again. We're done." I sent that e-mail out to the company mid-2007 and that was the last time I spoke to them. When I sold the company at the end of 2008, I already hadn't spoken to them in a long time so it was just finding a...

**Adrian Bye:** But they all stayed in their jobs and kept doing things. Who was running the company?

**Derek Sivers:** Well, that's just it. If you read that book, *The E-Myth*, CD Baby really was set up as a system that just worked. I was keeping in touch with some things remotely. There were a couple of people at the company that had the authority to hire and fire, and it had been that way for years. But there wasn't like eight persons that ran things. It was just a system that worked. Do you know what I mean? That's why...

**Adrian Bye:** Let's say someone in a key position quits or something like that. It was still feeling enough that if a key person quit, they would find a new one and replace them?

**Derek Sivers:** Yes and I think that did happen once. During that year even when I said basically, "I'm done with you guys. I'm not speaking to you," I think somewhere in there, somebody quit and all I had to do was just to kind of like send an e-mail to one guy, saying, "Jason, I'd like you to take over his job now." Then when they needed more people in the warehouse, they were free to hire as they saw fit and, yes, didn't really need me.

**Adrian Bye:** This is probably one of the most incredible interviews. I don't know what to say.

So you systematized your business that much. How many guys did you have working? You said 80?

**Derek Sivers:** Eighty-five, yes.

**Adrian Bye:** Were they in the office or spread out? What was the actual setup of the guys?

**Derek Sivers:** It was a giant warehouse so really CD Baby was just a pick, pack and ship warehouse business. Of those 85 people, that was about 50 in the warehouse, 25 in customer service and there were really only about five, maybe eight jobs that you could call somewhat creative or executive like desk jobs. It was really just kind of a customer service and CD shipping factory.

**Adrian Bye:** You managed the website?

**Derek Sivers:** Yes, but I did all the programming myself. There was one other tech guy, Jason, who was really good at just kind of being there on a day-to-day level to fix little tech fires that came up. I spent all my time doing the...

**Adrian Bye:** But you had ultimate control since you ran the website?

**Derek Sivers:** Exactly, yes. In fact, honestly – here’s a bit of a secret – when I heard that MP3 of the company meeting of everybody yelling, “Fuck him! Yes!” I logged in as root to the server, typed, “Halt” and shut down the site. As I was writing, what I decided to do was to shut down the company. I was like, “I’m not enjoying this anymore. I’m not doing it for the money. Fuck you.” What I was writing was the thank-you-for-your-business page like I was just going to replace all of [CDBaby.com](http://CDBaby.com) with a page that just said, “Thanks for your business over the years. CD Baby has closed. We will be hiring a company to send back everybody’s CDs.” I was just going to send an e-mail to all employees going, “You know what, guys? I’m not enjoying this. Go home. I’m shutting down the company. Goodbye.” So the site was actually shut down for about 15 minutes as I was writing this goodbye page, and that’s when I kind of like this was late at night I thought you know what, maybe I should sleep on this first.

**Adrian Bye:** Before you throw away \$4 million a year that’s coming in, in profits, right?

**Derek Sivers:** Exactly. So I type startup again. I booted the web server back up again, and that night, I remembered that my original idea when people started asking me way back in like 1999, “Are you going to sell the company?” during the dot-com boom so everybody was flipping and selling things. People would ask me if I was going to sell. I’d say, “No way. I’m never selling.” I said, “But if I do, here’s how I’m going to do it. I’m going to do it like Willy Wonka. I’m going to slip five golden tickets into five CDs and loudly announce to the world that I’m pulling a Willy Wonka, that five CDs have five golden tickets in them and whoever finds five golden tickets will be potential new owners of the company except because I don’t own a chocolate river to push kids into, instead what I’d do is once the five golden tickets had been found, I was going to hold a big musicians’ meeting in Woodstock, New York where I started the company and make it a free-for-all. So any musicians who were my clients could come to this meeting, and then the five people who’d found the five golden tickets, as long as they were interested, would get up there in front of everybody and each give their pitch for what they will do if they were owner of the company. Then the musicians would get to vote on who they want to be the new owner of the company and then whoever they voted to, I would sign the company over to that person kind of like giving Charlie the key in the glass elevator. That person would be the new owner of CD Baby on the one condition that they were not allowed to sell. Like if to a certain point they wanted out, it would revert back to me. So they couldn’t just make a bunch of promises and then sell it to Amazon or something.

That’s when I decided to do that and I was quite serious about it. I was going to look where I could get some...

**Adrian Bye:** That would’ve been an amazing news story.

**Derek Sivers:** Totally.

**Adrian Bye:** You would’ve like made the company grow like by 1,000 times overnight.

**Derek Sivers:** Exactly. I mean think of having musicians that would be so thankful that I would’ve sold billions of their CDs while people were searching for the golden tickets. People would’ve just come in and placed these 10,000 orders just to find the golden ticket.

I was quite serious about that plan for about a week and making real, concrete arrangements to make it happen. Then somewhere along there, the voice... I call it the rabbi in my head. I’m not Jewish but all my friends are and I have this sort of imaginary, stereotypical image of like the rabbi who’s kind of like the voice of objective wisdom looking at my scenario from the outside, going like, “So, what? You’re just going to walk away from this whole thing? You could sell the company for \$20 million but you don’t want to because why?”

**Adrian Bye:** Oh, right.

**Derek Sivers:** It's kind of the voice of the little rabbi in my head that made me think, yes, you know this kind of Willy Wonka golden ticket idea – it's funny, it's fun and it excites me but there might come a time when I'm 60 years old having to get a job at Starbucks, as you say, because I walked away instead of selling and I think I might regret that when I'm older. So that's when I decided – it's a nice story. I guess I'll tell it on my blog someday but in the end, I just sold.

**Adrian Bye:** Yes.

**Derek Sivers:** But, yes, you're right. This was all started by you asking about the me living kind of like you're living, living in gorgeous islands in the Caribbean somewhere. But, yes, I've been living the laptop life a few years, and I really like it. I like that idea of living for a few years each in a bunch of different countries and challenging myself for my next company to have no office, have no employees and just have it set up from day one so that everybody is working as freelance people from home, just set up the system that way from day one. It might be a failure, but I might learn a lot of good stuff along the way. It's worth a try.

**Adrian Bye:** No, I know. It's more than worth a try. Well, I can certainly talk with you about it.

Well, we didn't end up talking about how you built your other company, but I think this has actually been a far more interesting conversation. So thank you.

**Derek Sivers:** Thanks. Yes. The new company doesn't exist yet so I'm still really just doing the quiet backend programming of the basic administrative interface. The boring stuff – create an account, forgot your password, all that kind of stuff. So I'm still doing the programming. It doesn't exist yet. It's just a plan as of now. Maybe we'll talk in a couple of years, and I'll have another cool story to tell.

**Adrian Bye:** Yes.

Is there anything that you want to talk about which we haven't covered?

**Derek Sivers:** No.

**Adrian Bye:** Cool. Derek, thanks so much for your time.

**Derek Sivers:** Okay. Thanks a lot.