SportsMemorabilia.com: From a $12,500 Parked Domain to $19.5 Million - With Jesse Stein

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http://www.domainsherpa.com/jesse-stein-sportsmemorabilia-intervew/

Inc.com puts together a research report every year featuring the five thousand fastest growing private companies in America. One of the companies vying for this honor is Florida-based SportsMemorabilia.com - a company that owns a generic category-killer phrase searched tens of thousands of times a month on Google alone. We are going to speak to the Founder about how he built this parked domain into a multi-million dollar venture. Stay tuned.

Three messages before today's interview educates and motivates you.

First, if you're a domain name investor, don't you have unique legal needs that require domain name technical know-how and industry experience? That's why you need David Weslow of Wiley Rein. Go search for David Weslow on DomainSherpa, watch his interview and you can see for yourself that he can clearly explain issues, can help you with buy/sell agreements, deal with website content issues and UDRP actions, and even help you write your website terms and conditions. David Weslow is the lawyer to call for Internet legal issues. See for yourself at NewMediaIP.com.

Second, managing multiple domain name marketplace and auction site accounts is a pain. Inevitably, you forget to sign into one and lose a great domain…or worse. Now imagine using a single, simple-to-use and comprehensive control panel to manage all your accounts. That's Protrada. You can setup search filters, analyze domains, automate bidding, list domains for sale, and buy domains across all major marketplaces. Protrada also has a new semantic engine that builds Google-friendly websites with rich content and network feeds. Sign up at Protrada.com to get 20 free credits and start building and monetizing your domains today.

Finally, if you have questions about domain names, where should you go to ask them? The answer is DNForum.com. Not only is DN Forum the largest domain name forum in the world, but it's the best. You can learn about domain names and the industry, buy and sell domain names, talk about domain name news, and meet other domainers just like yourself. Register for a free DN Forum account and begin advancing your skills and knowledge today. And when you do signup, send me a friend request so we can connect.

Here's your program.

Michael Cyger: Hey everyone. My name is Michael Cyger, and I'm the Publisher of DomainSherpa.com - the website where you come to learn how to become a successful domain name entrepreneur and investor directly from the experts.

Many domain name investors own great generic domain names, and most of them are parked. That was the case back in 2006, when today's guest purchased SportsMemorabilia.com. But today the company does millions in revenue and leads the marker in high-end autographed sports merchandise and memorabilia.

Today we are joined by Jesse Stein, Founder and Non-Executive Chairman of SportsMemorabilia.com, and a fellow Gaucho graduate from my alma mater, UC Santa Barbara. Jesse, welcome to the show.

Jesse Stein: Thanks Michael.

Michael: So, Jesse, I love my life, but I always tell people the UC Santa Barbara was four of the best years of my life. Living in a student only community, called Isla Vista, nestled between mountains and the ocean. Do you look back and feel the same way?

Jesse: Oh, yeah, I would not have gone anywhere else. I remember I got into a couple of pretty good schools back East, but then I visited the campus at Santa Barbara. And I remember, after the campus tour, going to the bookstore and buying a bumper sticker, knowing that that's where I wanted to go. I got back to cold Santa Fe, New Mexico, and put a bumper sticker on my 1964 Volvo; and that was it. That was it; yeah, it was incredible.

Michael: Yeah. I remember it was one of the few schools that I did get into, and I showed up on the first day for orientation; I just remember, like I have never seen so many beautiful girls before in one location in my life.

Jesse: Yeah, girls going to class in their bikinis. It was like a dream.

Michael: It was. All right, Jesse. So, you own a decent number of generic domain names. I want to learn about your background from your post-Santa Barbara and also your domain portfolio, but I want to start with a few questions about SportsMemorabilia.com since that will be the main focus of the interview and I want to give the audience an idea of what they will expect if they spend forty-five minutes with us. So I read your recent write-up at Inc.com; and I will link to it below this video so people can go and read it themselves. Was the article correct in listing 19.5 million dollars as your 2012 sales revenue?

Jesse: That is right. We had 19.5 million; and that was from scratch. It was doing zero. The Owner of SportsMem, in 2006, was doing a couple hundred bucks a month in affiliate revenue.

Michael: Yeah. And how many customers did you serve last year to generate that 19.5 million dollars, roughly?

Jesse: Oh, that is a good question. Roughly fifty thousand customers. No, I am sorry. More like one hundred thousand.

Michael: One hundred thousand.

Jesse: Yeah, that is right. The average ticket is about one hundred and ninety-five dollars.

Michael: Yeah. Okay, and one hundred and ninety-five dollars - they are probably buying a single item.

Jesse: Yeah, 1.3 items is the average.

Michael: All right. So that gives an idea about the average sale price and how many products they buy. Do you find that a customer will buy one product this year, and then come back two years later and buy one more product now that they know where to go?

Jesse: Absolutely. I mean before us, there was really no authoritative source for authentic memorabilia online. And so, our lifetime value is really high. People come back over and over again. One-third of our customers are repeat customers.

Michael: Wow.

Jesse: We have customers who spend upwards of one hundred thousand dollars a year with us. Hardcore collectors. And it is a very rare product offering because it is not a widget. It is not built with designed obsolescence in mind, like a vast majority of products. Instead, it is on the other end of the continuum, which is multi-generational use. So, people hang this stuff on their walls. They collect it. It rarely goes down in value. It usually increases in value. And it connects them to a memory they love. So, it is a very passionate consumer audience. And so, there are customers coming back over again, especially the gifter. We get a lot of people who come back and buy that gift for their husband or boyfriend, or what not. So, it is a lot of fun.

Michael: Yeah, great point. So, for anybody that is not from the US, where sports memorabilia is a major industry, and maybe they are from some other country, let's say, how would you describe your overall business model? For example, is it like an Ebay, where you just pair together buyers and sellers, or is there some other business model involved?

Jesse: No, Ebay is more of a marketplace. And we are a straight up eCommerce Company, like the way Amazon started before it launched its marketplace. So, we have a number of suppliers. We have about two hundred and fifty suppliers of memorabilia; and they act as drop shippers. So, we will take in an order for a product that they stock, and then we will send them the order and they will ship directly to the customer from their facility. But everything will look like SportsMemorabilia.com. So, the packaging; the UPS label. Everything. That is about half of our revenue; is through drop ship suppliers, and then the other half is our own inventory. And we realized, as we were compiling sales data over many years, that it started to make sense to bring certain items in-house. So, two years ago, we started bringing in our own inventory. We started buying collections. And today, fully fifty percent of our revenue is from owned inventory. And gross margin is higher. We offer free shipping on all of those products. Our framing operation is also adjacent to our warehouse. So, if somebody orders an item at 4PM Eastern and they have it framed, we get it out that same day. So, it is a pretty efficient operation. So, fully half of the revenue is from owned inventory.

Michael: Nice. All right, so we are going to talk about what you started with as a business model for SportsMemorabilia.com, and then dig a little bit more into how that model has evolved to half drop shipping and half owning your inventory, and how you are actually projecting forward to find out what items are going to be most desired, highest profit margin, how you project out. And I know you are doing a lot in that space, so I want to chat a little bit about that. But let's take a step back for a moment. I want to take a brief diversion and understand how you got to today. So, you graduated from UC Santa Barbara; and we spoke just before the show that you and I graduated the exact same year.

Jesse: Yeah.

Michael: And the next thing that I see on your online bio was that you were Co-Founder and CEO of a Company called Soho Digital - an interactive, I assume, marketing agency that you grew to two hundred clients. Thirty-five employees. Thirty-two million in annual revenues.

Jesse: That is right.

Michael: Did you have another job between Santa Barbara and Soho?

Jesse: Yeah. So, I worked and lived in Japan for six years. My first job out of Undergrad, in 1992, was door-to-door sales in Japanese, in Tokyo, in a suit, in August for the largest temp staff company in Japan. A Company called Pasona. I did that for a year. It was very humbling. They gave me the worst territories, and I just was not that good at it. It is very difficult to sell in a foreign language, not being Japanese, but I love humbling experiences. So, it was great. I did that for a year, and then I was a journalist in Tokyo, writing for Dow Jones, for three and half years. And then kind of realized that I probably was never going to be Japanese, and so a good soft landing back to the US was Business School. I got lucky and got into Wharton.

Michael: Yeah, I do not know any slouches getting into Wharton, Jesse, so you might have done pretty decently at UC Santa Barbara.

Jesse: Well, I think it was luck, like a lot of things in life, and a little bit of hard work. But got in there, did a dual degree program, did an MBA, and then I did, at the same time, an MA in International Studies from Penn. Graduated there in '98, and worked for a Supply Chain Software Company in Dallas for one year. That was my last job-job. And then, in '99, started a Company called SmartCasual.com, which was an online retailer. Actually, before Google launched, started that company. It failed fast and hard. That is my favorite type of failure. Did the classic dot bomb.

Michael: Yeah, '99. So, it was just at the peak. Right when all the craze was going on online. You were like: 'I got to get a piece of that'. SmartCasual.com.

Jesse: That is right.

Michael: Because you like to dress smart casual?

Jesse: Yeah. Well, maybe causal. I do not know if it is smart or not. But we did it; and it was with my two best friends since I was twelve - Wayne Chaves and Adam Edelman, who are, today, very successful Internet entrepreneurs in Boulder, Colorado. They have an incredible Company called InterMundo Media right now, which is just growing like a weed. But in any event, the three of us started the Company. It did not work out, but I learned a tremendous amount. And that company was really the beginning of my SEO journey. So, I learned a whole lot about, at the time, how to optimize on Yahoo for organic search. And I kind of took that knowledge and transplanted it into my next couple of companies. So, I started an SEO Consulting Firm, called Tidal Interactive, and then Soho Digital at the same time. And Soho Digital grew and grew and, as you mentioned, it grew to thirty-two million dollars in revenue. Very, very nice eBid margins. And we got lucky and sold it to a Portfolio Company, Inside Venture Partners, in 2004. And meanwhile, right around that time, I started dabbling in health and beauty continuity. So I developed my own wrinkle cream and a couple of other products, and started marketing those on the Internet. And meanwhile, the SEO was going. So, I was learning about SEO, and then, through Soho Digital, learning about paid media, because that is all we did; was paid media. Mainly display media. And then, with the wrinkle cream businesses, learning about continuity. And today, one of my businesses is a diet business. I have a website that is exclusively organic traffic. It gets a tremendous amount of diet traffic - brand searches -, and then I sell our supplements through that website. But in any event, the Soho Digital sold; and I remember, during the earn out, a guy said, "Hey, you have got to check out this weird industry that is called domaining." And he showed me this DN Journal website. And I have a tremendous amount of respect for Ron Jackson, and for you, for really reporting on this industry. And i looked at this thing and I said, "This is so interesting. I never had thought of domain names as Internet real estate; as digital real estate". And so, I went to my first TRAFFIC Conference. I think this was '05. And I realized I was late to the party. It was like being in Isla Vista at 2AM, and going to a frat party, and they are pumping foam out of a keg, and you are the last person there. And people like Frank Schilling and others, and Slavic, and all these guys.

Michael: Frank is going up to his room. He has got his arm over two cuties. Yeah, and you are standing there at the keg.

Jesse: He is a hammock in Cayman Islands. And so, I thought: 'Well, I have got to do something different here.' Clearly the opportunity to algorithmically buy domains using the add/delete game, and doing what Frank and the others had done - that arbitrage is gone. And so, I thought: 'Well, maybe I can use my SEO skills and my ability to build out websites to buy a really good domain name and develop it.' And really, at the time, it was obvious that these names were real estate. If you could buy a beachfront property and if you were a land developer, then you could build it into the Wynn Las Vegas Hotel. And so I made a bunch of offers. And my investment thesis, beyond anything else, was buy an enthusiast, category-killing domain name. And so, I really wanted to the property to be underpinned by a passionate consumer audience, because I thought then we could harness the power of community and content in addition to commerce, and then just create stickiness; create repeat customers and a real enduring business model. And so, I made a bunch of offers; and the Owner of SportsMemorabilia.com, at the time, was just sick and tired of it, could not make any money from it, and he mercifully let it go for a very attractive price, and I ended up with this domain name. And I also realized that I knew nothing about sports, sadly.

Michael: Often times, fledgling entrepreneurs will hear from seasoned entrepreneurs: find something you love, and then focus on that. And you will either figure out a business model, or the money will come eventually, or something, but love what you do.

Jesse: Yeah.

Michael: So, in this case, you bought a domain name that defined a purchased track. People interested in sports want to own a piece of history of their favorite team or players; and so, since you were not a self-professed sports fan, why would you even think about buying SportsMemorabilia.com?

Jesse: That is a great question. So, for me, I actually have slightly different advice, or a different viewpoint, which is I love the puzzle of putting together a business and trying to figure that out. That is where my passion lies. And then, we obsess over customers. And so, if there is a passionate customer there, whether it is memorabilia, or hammocks, or Bocce Ball sets, or lawn darts, or whatever else, I think the important thing, at least for me, is the complexity of trying to scale a business. And it just so happens that this is a really cool product that people love and hang on their walls for decades. That was more luck than anything else. And so, the model really was to acquire this name and then to hire people who could come in, who were imminently more talented than I was in different respects and who had forgotten more about sports than I will ever know.

Michael: All right, so let me back up for a second before we get into how you hired the people and everything involved in that. So, how did you even pick SportsMemorabilia? Why didn't you choose something like Bicycles.com, or people love their pens and they will pay two hundred bucks for a pen, and why wouldn't you buy Pens.com? How did you pick SportsMemorabilia out of the thousands of different product niches and all the criteria you had around building a business on top of a product category-killer domain name? Why would you pick that versus all the other domain names that were available?

Jesse: That is a great question. It was really out of my control because a vast majority of the domain owners, at the time - it has changed a little bit. The market has softened, but they were so irrational about their sales prices that I was interested in Biking.com, in fact. In fact, I ended up buying it five years later, but at the time it was impossible. I mean, at the time, Rick Schwartz was telling people forget about ten times eBid multiple. You have got to think about one hundred times eBid multiple. Never let this real estate go. And I think Rick is great, and I know him well, but I think that that created a really irrational mindset.

Michael: Right.

Jesse: And you could feel it in those rooms when you were at TRAFFIC. I mean people just thought that they had discovered electricity. And so, it created this kind of warped sense of supply and demand, where, even if someone comes to you with a really reasonable offer for your domain name, never let it go because it will just be worth so much more the next year. And in fact, quite the opposite turned out to be true, when Google completely changed its quality scores and parking revenues plummeted, and now I think there is a lot of people holding domains that they wished they had have sold. But the short answer is that very few people were willing to let go of their domain names for anything reasonable; and the guy who owns SportsMemorabilia came to the table with something reasonable, and so I was lucky to get the name.

Michael: Yeah. Could you have bought another domain name besides SportsMemorabilia.com and built a 19.5, 2012 business on top of it?

Jesse: I do not know. At the same time, I bought BeverlyHillsPlasticSurgeon.com. And Allen Hack, who is fantastic, sold me that name; and he and I have done quite a bit of work over the years together. And you never know what horse is going to win as an entrepreneur. At least I do not. I am not smart enough, and so BeverlyHillsPlasticSurgeon was going to be a lead gen business for plastic surgeons in California and beyond over time. It was just such a strong name.

Michael: Yeah.

Jesse: And so, I went to the Plastic Surgery Conference, and built that out, and created content and SEO-ed it, but it was just a really difficult business model. And I just felt like Sisyphus, rolling the boulder up the hill, and it was just difficult. And so, I like to go where there is a little bit more flow. And SportsMemorabilia, from the outset; I mean it took a while, and we are still a relatively small business. A twenty million dollar business. It is great, and we are very healthy and very profitable, but we have a ways to go. But at the time, we SEO-ed it. And I brought it Stefan Tesoriero and Michael Gallucci, and the three of us are really Co-Founders of the business. And Stefan is CEO and Michael is COO, and they are just incredibly talented; incredibly good at what they do. And we were lucky that the SEO worked and, within months, we were ranking number one for the term 'Sports Memorabilia' on Google, and then, within a couple years, we were ranking number one for basically any combination of team, player, and then if you add the word signed, or autographed, or memorabilia; and that is the case today. So I think that was the secret sauce. That was the long pole in the tent that allowed us to scale the business; was the fact that we had all this free traffic.

Michael: Right. Free traffic, which you built using a lot of SEO techniques. But back to the domain name. Could you have bought SportsMem.com, so it is not even SportsMemorabilia? How much more difficult do you think it would have been to build it off of a brandable domain name versus a generic keyword domain name?

Jesse: Right, that is a great question. And I think it is in the eye of the beholder. So, there is a lot of beautiful brands out there. Obviously, with Zappos and Amazon, and Ebay, and the like that are not generic names. But I always believed in the power of a generic name, especially when you are self-funded and smaller, and you are trying to open up doors to suppliers and partners and, later on, investors and customers. And I think that there is tremendous value that is conferred by a category-killing domain name that really has no real synonym. I think that is the key; is you cannot buy a name where then there could be twenty other words that would be similar to that name. With SportsMemorabilia, there is really nothing that completely defines the industry; and it happens to be a really important facet of our model because SportsMemorabilia is all about authenticity, and we live and die by authenticity, and just our name alone confers that authority. And so, I think, in this specific case, it was huge, just owning the name. And once you own the name, no one else case. So that is what is beautiful about it.

Michael: Great point.

Jesse: So, in this particular case, I think it is great to have the category killer. And within five years already; well, actually we are in year seven, but we are gathering a lot of steam and I think it is very difficult for competitors to catch up at this point.

Michael: Yeah, great point. And the Castello Brothers said the same thing when I interviewed them about PalmSprings.com. When they call up and advertiser and they say: "We are calling from PalmSprings.com," it automatically generates authority on their behalf with the customer. How did you get that domain name? They have got their own perception of what it is versus Zappos. 'Hi, I am Jesse Stein, calling from Zappos.' Well, what does Zappos do? And that could have been the name for any business. So, great point that you get the keyword rich domain name. People are going to argue left and right whether it still has value today in the eyes of Google and other search engines. I think it still does. They have just decreased for non-value added websites. But clearly you have a lot of original content and great products that are not replicated across many other website, so they are giving you the value for that, plus you get the authority of the name that others cannot get.

Jesse: Yeah. Well, the misconception. So, the Google boost that you get from the generic name is less about the fact that you own the URL - the precise keyword match - and therefore, Google ranks you higher. It is more that the people who end up linking to you use the anchor text in that link that is your name, and so that term appears much more frequently. And so, Google then assumes that you are just the complete authority in that space. And so, that is really where the SEO kicks in, as a result of the domain name.

Michal: Right. Great point. So, I want to touch on one more point before we get into the details of SportsMemorabilia. And I notice that TritonCorp.com, where you have all of your brands, you list them. Biking.com. HollywoodMemorabilia.com. Barbecuing.com. Boating.com. Yachting.com. Hobbies.com. Skiers.com. Phenomenal domain names. And you mentioned earlier that SportsMemorabilia hit and maybe another website that you tried to get up and running did not hit. Do you notice that it is a numbers game? You have a certain number of irons in the fire, and some of them are going to take off; and you are doing the same sort of business strategy and assigning resources to them, but some of them work and some of them do not?

Jesse: Absolutely. I think there is that. I think part of it is throwing a bunch of stuff against the wall and seeing what sticks, but another part of it, at least in my experience, is just focus. I am convinced now that it is better to be really good at something and deep dive rather than being jack of all trades, master of none. My thesis with Triton was that we can take the same platform, the same people, and the same processes and map those over into other domains. And so, what ended up happening was the issue is it takes time to SEO property, and so there is this incubation period. And in a Post-Panda, Post-Penguin word, which were the two big algorithmic changes over the last couple years with Google, it is harder. Google moves a lot slower now. And so, to build trust and authority in such a big category, like Hobbies.com or Biking.com, it just takes longer now. So, you have to plan on, if you are going to spearhead your kind of business with an SEO strategy, it is just going to take longer to get traction. And so, it took longer than expected to get traction. And also, it is not just about mapping the processes from one business onto the other ones. You really need to hire customer service agents who understand biking, like cyclists and who have it, and like pick up the phone and answer questions, and we need to look credible in front of suppliers of bike parts, etc. And so, you really need to hire people for each business that are passionate about that specific thing. And that takes a lot of focus. It takes a lot of money. I would counsel somebody if they were wanting to build out a larger portfolio of domains to go out there and that is where you want to approach a private equity guy and put ten million dollars plus on the balance sheet so you can really do it right and scale it. And SportsMemorabilia.com is a very inventory hungry business, and so a lot of the free cash flow from the business has been reinvested back into purchasing inventory, scaling up staff, etc. And so, what we decided to do - and I have other ventures that I have been really lucky with. I mentioned the diet venture. I have a number of content website that I have been building out. And I decided that I was happier and I felt more fulfilled at the end of the week when I actually focused down on something. One nice thing too is that, by owning a nice portfolio of domain names, you are going to have serious inbound inquiries. And I got one such inquiry about six months ago, where I sold Hobbies.com and Biking.com, and more than doubled my money on those and ended up becoming good friends with the gentleman who bought the name, who happens to be a serial entrepreneur himself in the Internet. But the bottom line on that is my recommendation to anybody is pick something good and really dive into it and stay focused.

Michael: So, you would not recommend developing out three or four websites, putting a little bit of time and effort into each of them to get them up and running, and see what sticks against the first before picking one to deep dive? You would say pick one and deep dive in it?

Jesse: Well, pick one and deep dive in it. And if it is not working out, fail fast and hard, and move on.

Michael: Yeah.

Jesse: So, do not get stubborn. I have never grown attached to businesses because I think it is dangerous. And so, if it is not working out, like BeverlyHillsPlasticSurgeon, I found out within ninety days that thing was not working out and very quickly moved on. Same thing with Boating.com actually. Boating.com. Bought that name and started building it. Opened up a nine-person sales office. Started selling in to boat dealer and yacht brokers. And the real business there is in boat parts, which iBoats does a great job, but it is a really big effort. And so, I realized, at the time, not that the model was flawed, but more that, wow, this thing really requires at least an additional seven to ten million dollars in working capital to get going and to really hire the right staff and to scale it up. And I said, "You know what? I rather just focus on SportsMemorabilia and go from there."

Michael: Yeah, makes sense. All right. So, let's reverse back to 2006. You paid how much for SportsMemorabilia.com?

Jesse: $12,500.

Michael: How did you determine that twelve and a half thousand dollars was the right value for purchasing that domain name?

Jesse: I think I offered just about that to this guy, David Bailey, and he was just looking for cash and very frustrated. I think it is good to get somebody who is fed up with the name or has really just kind of put it completely out of their mind. And this guy, David, was ready. And so, I approached him, and I could not believe it. I honestly could not believe that I was lucky enough to buy that name for twelve thousand and five hundred dollars.

Michael: Yeah. How do you value a generic name, like SportsMemorabilia.com, today? If it was not a developed site and you had it parked, and you were thinking about selling it or you were thinking about buying it, how would you value it today?

Jesse: Like how much I think it is worth?

Michael: Yeah.

Jesse: Assuming it was not a built-out property; it was just a domain name?

Michael: Right.

Jesse: One hundred to one hundred and fifty thousand.

Michael: Now, is it just your past experience? You would say it is a big enough market, knowing how much I could sell products for?

Jesse: Yeah, it is a billion and a half dollar market domestically. Knowing what I know about the competition. The more niche-y and enthusiast something is, I think the more interesting it is, because you get all that passion of that consumer audience. So, yeah, I would say between one hundred and one hundred and fifty.

Michael: Do you look at the analytics, like how many times it is searched per month and what the average cost per click is on Google, or Yahoo, or Bing, and try to set a price that way? Or is it really just gut feel-based on your experience?

Jesse: Definitely look at the keyword universe. It is the first thing I do; is I look at the whole universe of keywords. Everything. And I will add up the local search volume that you see there, in the Google Keyword Tool. I will go to Compete.com and to HitWise, and take a look at competitors. I will look at Alexa rankings within the industry and see how many players are there. And then just try to get a sense of how big the market is domestically. And then how competitive the pay-per-click landscape is, and then how competitive the organic landscape is. And then it becomes feel and it becomes like: "Am I well positioned to build this thing out," because it could be awesome. Like I own BabyFormulas.com, and it is a great domain name. Diapers.com guys did a pretty good job, and so it is crying out for developing, but it is all just a matter of bandwidth.

Michael: Right. Yeah, definitely. I plugged it in to Estibot.com, which values only the domain name; not the business. It does not know what your revenue and your eBid is, or anything like that. And they valued it at one hundred and six thousand. So, right around the order of magnitude that you think it is.

Jesse: Yeah.

Michael: So, once you bought it, in 2006, what was the first thing that you did?

Jesse: Overlaid a website onto it. So, replaced the website that was there with a commerce site. So, hired a programmer. The most important thing I think you need to do, if you are developing out a website, is find a rock star programmer and make that programmer your business partner. And really treat that person well, and have a great collaboration with that person. And then, I think the next thing was a great partnership with a great SEO engineer. And so, did that. Those were the two first people along with Stefan, the CEO, because I needed a sports expertise, and we just kind of went from there.

Michael: Was it in that order? You hired a programmer, who was able to get the site up, then you brought on an SEO expert that was able to then optimize and figure out a strategy for producing content that was search engine optimized, and then you brought on Stefan, who had the experience in sports memorabilia?

Jesse: Yeah, that was roughly the order, and started generating content right away. And so, what you want to do is just figure out what the architecture of the website is. So, just all the categories. And then create the website. At the time, I went really fast in the two or three largest suppliers of memorabilia. Took meetings with them. And again, that is where owning the category killer makes all the difference, like you say. I mean I called up Steiner Sports and said, "Hey, just bought SportsMemorabilia.com. I know nothing. I do know a thing or two about the Internet, but I would love to meet with you," and they supplied us right away, and so did Mountain Memories, which is one of the largest guys. And we got those two guys right away. We launched a website, uploaded the product feed, started generating unique content to put on each of the pages so Google would start to like the site, and then it just kind of went from there.

Michael: Who wrote the content? I understand that you and Stefan and the SEO guy got together, and you said, "Well, we need every team in there, and we need every player on every team, and we need the keywords autograph or whatever other keywords that you said," and so you figured out what your text on it would be. And I think I read that you produced additional content, like how do you value a signature on a baseball and various generic articles related to sports memorabilia that people are searching for to bring them to your site. So, I understand that, but that is a lot of work. How did you produce all of that content?

Jesse: Yeah. So, the content piece was we found freelance writers through Craigslist. And today, we have a network of about one hundred and fifty writers who are on call. And we paid them per article basically. Currently, we have about twenty-five thousand articles up on the website. So, most of them you have to drill into a very specific page, and you will scroll down, and you will see it is more like a blurb. It is like a two hundred and fifty-word blurb. So, my advice is to create a substantial piece of content. It has got to be one hundred percent original on each page. And you do that, and it is going to not only help with SEO, but it is important for pay-per-click as well because it boosts your quality score. And so, all things equal, you have to pay less for a click than your competitor will over time; and that is huge.

Michael: Now, two hundred and fifty words is not very much. And I thought I remember Google, in one of the updates, looking at short content as just SEO-ed content; not really a value. Did you notice that your site took a hit last year, when Panda or Penguin came out, and you did not have content that was long enough?

Jesse: Great question. So, that piece of it was more targeted at the content farms, like Ehow, Expert Village, and all these guys. All it was was content. There was no product. There was nothing else. And Google owns Chrome, so it now has all this browser data. So, it was also looking at bounce rate. It was looking at average time spent on the site; number of pages visited. And noticing that people were going to these content farms and it would be like a ninety percent bounce rate. People would just leave or average 1.1 pages visited. So, I think what they did with our site, we actually gained traffic in Panda and Penguin because there is so many positive quality indicators on our site. People come and they end up drilling deep into the site. They end up reading multiple articles. They end up checking out and buying something. And so, Google could tell that this thing was real. And it gives you a massive benefit of the doubt when you are an older website, and so our site has been continuously launched since 1996. So, I think it said there is enough quality indicators here that we will give them the benefit of the doubt.

Michael: Yeah, that makes sense. Would you, today, if you were doing the same thing, go back to Craigslist and find people who are passionate about the topic in certain geographies rather than going to Elance or Odesk.com, or any of those other websites to find writes?

Jesse: Yeah, I like Craigslist because you can target, for example, college towns. Maybe not as targeted at Isla Vista, but you could do Madison, Wisconsin, and you just find tons and tons of Journalism and English students who want to make some extra cash.

Michael: Yeah, great idea. So, it seems like bringing on a programmer, bringing on an SEO expert, and bringing on Stefan, who has the industry expertise and has worked at, I believe, a professional sports team--

Jesse: Yeah, he worked a couple of professional sports teams. And then, Michael Gallucci had played sports at a collegiate level. He was actually an intern with us while he was going to Ohio State.

Michael: So, it seems like that would be a lot of capital necessary to start up this venture.

Jesse: Yes.

Michael: Were you able to bootstrap that yourself because you did have a successful exit prior?

Jesse: Yeah, definitely. It goes without saying that the more of a nest egg that you can cobble together, the more options you have, and the bigger you can go, and the more failures you can have. The more bulletproof you are. And so, I was very lucky to have that exit and, before that, cash flow generating businesses, and so it allowed me to invest in SportsMemorabilia.com, and also be able to take risks on stuff like BeverlyHillsPlasticSurgeon and many other domain names. Take risks on Triton and buy all the Triton domains. At the same time, I was launching health and beauty products. And so, I think it allows you to just be more comfortable with risk, if you have that cash. And also, I just doubled down because of it every time, because I was lucky. I did not need distributions from the business. I have never taken a salary. Here we are in year seven; I have never taken a salary from the business.

Michael: Wow.

Jesse: Because for me, this is the best and highest use of my cash. Why would I take it out when I can just reinvest it and grow the business? It is better than earning one and a half percent in a CD.

Michael: Because you own equity in the business, so your increasing the value of your equity at a much faster rate.

Jesse: Right.

Michael: So, when you brought Michael and Stefan -- and what is your programmer's name?

Jesse: Keith.

Michael: Keith. When you brought them on, did you just pay their salaries outright or did you give them a piece of the company, or what convinced them to come on to this fledgling company that had a great domain name?

Jesse: Sure. Well, I think it was definitely an exciting adventure for everybody. And it was clear that the Internet was hear to stay. It was some years after the April 2000 crash, and Web 2.0 was beginning, and I think it was clear to people that this thing had legs. But yeah, I gave them a piece of the business and also flexibility. Keith, who is the most talented programmer I have ever worked with, was allowed to work out of his house in Pennsylvania for many years. And he is with us, now, in Miami, but offered them flexibility and a real Internet-type culture. But also, they have a significant piece of the business. I gave away nearly twenty percent of the business to about one dozen executives; and that was one of the best things I ever did. It allows me to design my own lifestyle. It allows me to be entrepreneurial. And it is really important to me that the people working in the business really are owners. Not just feel like owners, but they truly are owners and they have skin in the game. And they can make that mental calculation. When they say comparable companies exiting for a lot of money, they can map that back to their own equity holding and say; "Wow, this actually really significant."

Michael: Yeah, that is great. And I appreciate you saying how much equity you gave to how many people, because I think a lot of entrepreneurs want to do partnerships with other people, but they are not sure. Do I need to give fifty percent? Do I need to give ten percent? Is two percent too much? And so, twenty percent to ten executives. It is a twenty million dollar company today. If you can grow it two hundred million at a decent profit margin and you are looking at the multiples that similar companies are exiting with, they can calculate how much their equity is going to be worth upon exit.

Jesse: That is right. I think that is really important. I think, for me, the more you give, the more you get in that sense. I mean I am still going to be, hopefully, savvy about it because I am the one taking on all the risk and I am the one who has funded everything. And I started the thing and bought the domain, but at the same time, I think you really need to key it off of where people are in their careers. And so, if someone is one of the top people from Microsoft and you are bringing them over, it is just a different equity calculation than someone who is just out of college, for example. So, I think it is important to really make the calculation so the number, if you exit, in their mind is truly meaningful.

Michael: Right. Do you require vesting of that equity over a time period?

Jesse: Yes, absolutely.

Michael: How long is that time period, Jesse?

Jesse: Four years.

Michael: Four years.

Jesse: Yeah.

Michael: Okay. Your first year in business. So, you brought on the team, they got a website up and running, you called up some distributors, I guess, or producers of this memorabilia, and you said, "We can sell it through out system." They gave you the meeting because you had a great domain name and you had a team in place, and the Internet was taking off and they knew they did not want to pass up that opportunity. You got the product; you were able to sell it. Do you remember what your first year's revenues were?

Jesse: I want to say sixty thousand dollars.

Michael: So, how did you not think that sixty thousand dollars, after a year of work and all the investment, paying salaries, paying for the development, and everything? Why didn't you look at sixty thousand and say: 'I need to change businesses because this one is not going to be a winner'?

Jesse: Yeah. Well, it started in June '06, and I think we did sixty grand or eighty grand that year.

Michael: By year-end, okay.

Jesse: But it started from nothing. And so, you need a lot of traffic to produce a sale. I mean, usually, 98.5 out of one hundred people come to your site leave without buying. And this is out of qualified traffic. You need very qualified traffic and a lot of it. So, it just takes time to gather steam with Google. And so, the first several months, that is exactly what it was, but it was clear. Just the frequency of orders. It was clear that if that kept up that the snowball would turn into something interesting.

Michael: Okay. So you saw the velocity of the sales increasing over time.

Jesse: That is right.

Michael: So, even though sixty thousand dollars may not seem like a lot for four people working on a site plus a team of contractors writing content, you saw it increasing over time and you knew that you were heading in the right direction.

Jesse: Yeah, for sure.

Michael: Okay. If you would have seen one order happening per month, or one order per week, and it was stable through the end of the year, might you have thought that maybe this is not the right business?

Jesse: Yeah. If, within six months, frequency of orders was not getting more interesting, then absolutely. What happened was it was like an order a week to start with, and then it was an order a day, and then it several orders a day all of a sudden; and that is where we said, "You know what? You just extrapolate this out, and this is going to be really interesting."

Michael: How did you determine what your average profit margin was going to be when you were analyzing whether this was a business that you wanted to get into?

Jesse: Yeah. So, in eCommerce and in something where you are shipping a tangible product that arrives to a consumer's house in a box, I think you want to think about fifty percent gross margin. Once you start dipping lower than that, it is really difficult, especially to buy paid media and make the numbers work. It is very hard. And so, you need to be there and you need to figure out ways to increase retention. Loyalty, and upsells, cross sells, and then even just take that fifty percent gross margin and how do you get that higher. And so, what we did was, for us, the natural couple of upsells were framing and display cases. And so, we would start with framing. We started with outsourced framers, and then, a couple of years ago, we brought that in-house. That is a great business. Very high margin business. Forty percent of customers who buy a photograph end up getting it framed. About twenty-five percent of people who buy jerseys get those framed.

Michael: So, I go on your site. I am going to buy a jersey for four hundred dollars. You bought it for two hundred dollars. So, I have got it in my cart for four hundred dollars and you are saying: "Hey, wait, you can buy a frame for an additional hundred and fifty dollars."

Jesse: That is right.

Michael: And you make even greater profit margin on the framing.

Jesse: That is right. The framing actually starts at $250, and then we a Deluxe version that is three hundred. And the great thing is it is a total win for the customer because we have so much scale compared to the small memorabilia businesses that we buy a lot of product and we can offer at a two hundred and fifty dollar price point, where if you took it a local framer, we have done that before and they will not do it for under five hundred or six hundred bucks.

Michael: Right. And plus, you have got expertise in doing that. You are going to pin it the right way. It is going to be the right type of frame. Yeah, definitely. Awesome. So, we talked about equity. We talked about marketing through search engine optimization and how you built up that content. Did you do any other type of marketing? You mentioned that you have expertise in display advertising. You were doing buys for your clients for years. Did you do any display marketing or any pay-per-click marketing through Google?

Jesse: Yeah, absolutely. So, SEO is only about one-third of our traffic now, and so we do all the above. We do comparison-shopping engines. We do pay-per-click. We do, what are called, product-listing ads. In Google, we run retargeting. We run display. We have a pretty robust affiliate program. We do email in-house. And then, of course, as you grow, you get more and more type-in traffic, which is the most valuable traffic there is.

Michael: Wow, so you are pretty much covering all your basis with marketing. How big do you think you can grow SportsMemorabilia.com?

Jesse: I think it is a hundred million dollar top line business.

Michael: Yeah.

Jesse: A very profitable hundred million dollar top line business. No problem. That is a billion and a half dollar market. Ebay has probably about forty percent of that market, and then Amazon's Marketplace has a decent percentage of that market. You still have about twenty-five hundred offline memorabilia stores. You have pure play competitors, like Steiner Sports. Pure play in the sense that all they do is memorabilia. You have Mountain Memories and hundreds of other smaller websites. We believe that we can do, without breaking a sweat, a hundred million dollars within three to four years.

Michael: Nice. And then all of those big companies that you mentioned might be potential acquirers in the future, when they want to own a category for their marketplaces.

Jesse: Yeah, some of the big guys. I mean one thing is this has never been built for an exit. This is really such an interesting business that we really build it. Ironically, investors love this, when you are building a business not to be acquired. You are actually building it so that it is an enduring business model; so it is sustainable; so it will be around in twenty years. That is the way we are building this business. We have had several serious inbound inquires, of course, from private equity firms and the like, but we are just happy being standalone. We think there is a lot more growth ahead of us, so why would we sell now?

Michael: Right. So, how did you decide to stock product a year or two ago rather than just operating your platform as a drop shipper like you did originally?

Jesse: Right. So, we were drop shipping, and then you can never fully control the customer experience with the drop ship model. And you can never really control, specifically, the shipping window. And so, you are going to get customers who complain, and they blame it on you. They are not going to blame it on your supplier. And you are never going to get full transparency into margin either, if you are jut relying on drop ship suppliers. You do not really get pure competition that way. But when you go out and you start buying inventory, you can do all kinds of things. You can be a lot more flexible with sales. If you know that you are going to sell one hundred autographed Derek Jeter baseballs this year, you can go and shop that around. You can command, obviously, much better margin when you go to a supplier, saying: "We would like to buy one hundred of those baseballs." You bring the balls in, and then we have a photo studio, and so we take beautiful photographs of all of our in-house inventory. We get great rates with UPS, and so we offer free shipping on all of our in-house inventory. The framing is all in-house. And so, what it boils down to is we are able to, as I mentioned before, it is a rare promise for a smaller eCommerce company, but if you order before 4PM Eastern, we will ship it out that same day. No matter what.

Michael: Wow.

Jesse: No matter, whether it is December 12 or February 14.

Michael: Yeah, fantastic. So, I looked at a few of your other websites in addition to SportsMemorabilia.com. Biking.com. Boating.com. It seems like you are using the same platform that you have built, but with a different logo and different categories, and maybe some different price points. Is that correct?

Jesse: Yeah, same platform, same technology, and same everything. Same designers. Same programmers.

Michael: And how are the other sites doing compared to SportsMemorabilia.com?

Jesse: They are kind of dormant. Like I alluded to, these are not small undertakings. The boating industry is huge. Biking is huge. Hobbies is gigantic. And so, I think I bit off more than I could chew, honestly. And I realize that. When I really realized it is just that I was not happy doing it. I was not happy being the plate spinner on the Ed Sullivan show, spinning a plate on my nose and my hand, and it just was not fun. And so, those sites are a little bit in cryogenic freeze. I kind of mentioned that we sold Hobbies.com and Biking.com to a guy who is going to do a great job focusing down and building those properties. And meanwhile, the others are just kind of there. And I like having those as option value later on, because they are just wonderful domain names. They are in Google's good graces. We continue to add content to those sites, and so they continue to percolate in Google's index. They continue to mature and get more authoritative. And so, to me, there is no downside really.

Michael: Are there transactions that are completed through those websites? Are there products for sale?

Jesse: Not anymore. It was too distracting to our warehouse to, all of a sudden, get an order for a boat part and a bike de-railer.

Michael: Right. Got it. All right. So, I wanted to ask you about your title. Founder and Non-Executive Chairman. What is the Non-Executive? I have never heard of that before. You often hear Founder and Chairman or Founder and CEO. What is Non-Executive Chairman mean, and how does that work with your other partners on the business?

Jesse: Sure. So, basically, I really want to let them know that they are in charge operationally. And I want to let perspective investors know that too. If you want to exit the business, or sell minority, or a do a recap, and be able to step out of the way, it is really useful to have a non-executive chairman title, because it says that you are happy to roll up your sleeves when necessary and add value where you can, but that you are just not operationally involved in the business. And so, that is really where that comes from.

Michael: Yeah, and that makes sense. I experienced the same thing back in 2008, when I was looking to exit from my media company. But you have no plans to exit. I believe you said that you have not taken any investment. Is that correct?

Jesse: I have not taken a dime. No.

Michael: Yeah, so why the positioning on the title? I just wonder.

Jesse: Yeah. So, I talked to enough people who had done exits and they said, "You know what? You may want to think about changing your title, if you really like taking off to Colorado at a moments notice and making your own schedule and all that type of stuff," which is really important to me. Just to have that flexibility. I mean, of course, I am not above hard work and I do it every day, but the flexibility and the options is what is really important to me right now in my career. And so, I did that, and I also did it to signal to my executive team that they are in charge. They are the ones. If you go to SportsMemorabilia.com, in About Us, I am at the very bottom. And so, let them know, hey, they are the ones.

Michael: Yeah, that makes perfect sense. You want them making the decisions. It is their business. They feel like they are responsible for the decision they make. They take accountability. So, here is the final question, Jesse. So, I want to point out for the audience, it is past five o' clock east coast time. I reached out to Jesse last minute and he was gracious enough to come on the show. It is actually Valentines Day, so I am especially appreciative because you are spending Valentines Day with me rather than your wife and your family.

Jesse: No problem.

Michael: Fellow Gaucho though.

Jesse: Flowers will arrive at your house in a few minutes.

Michael: Exactly. So, here is the last question that I have, Jesse. Often times, I talk with other entrepreneurs who have had successful exits and they look at the business that they built in the past, and then they think about if they were to rebuild the business today, and they think how difficult it is. I want to get your take. If you were buying SportsMemorabilia.com today and you followed the same game plan - you wanted to figure out your content structure, build a ton of SEO, go build your partnerships to get the products to bring onto the website -, do you think it would harder, or easier, or the same today than it was in 2006?

Jesse: It would be the same. I think it would be the same. I would focus more. I would get less distracted with Triton. And I do not view anything as a failure. It is always a learning experience. It is always meant to be. I really believe that. But I would have just focused down more just on SportsMemorabilia. And I also think that, as I look back on business, I have exited two businesses now. I exited a health and beauty business in 2008. And I think I would choose to hold and build businesses rather than exit, because people forget. I mean they look at the exit as the Holy Grail because there is this liquidity event that is taxed favorably and all this stuff that happens all at once. And it is great, but I think there is a lot of value in owning a long-term cash-generating asset; by the way, that you can exit for more money later on, if you choose to. So, I am a big believer in just building great assets that generate cash.

Michael: Yeah, definitely.

Jesse Stein, Founder and Non-Executive Chairman of SportsMemorabilia.com. I want to thank you for taking the time to come on DomainSherpa.com and share your insights for how you built SportsMemorabilia.com from a 12.5 thousand dollar domain name up to 19.5 million dollars in 2012. And I wish you and your team continued success and growth in the future. Thanks for coming on and being a Domain Sherpa.

Jesse: Thank you, Michael. I appreciate it. Happy Valentines Day.

Michael: Happy Valentines Day. You are my valentine, Jesse. Thanks for watching. We'll see you next time.

Watch the full video at:
http://www.domainsherpa.com/jesse-stein-sportsmemorabilia-intervew/