

[Transcript] My First Million / #117 Austen Allred - Lambda School's Founder Brings His Best Ideas

All right.

Quick break to tell you about another podcast that we're interested in right now, HubSpot just launched a Shark Tank rewatch podcast called Another Bite.

Every week, the hosts relive the latest and greatest pitches from Shark Tank, from Squatty Potty to the Mench on a Bench to Ring Doorbell, and they break down why these pitches were winners or losers, and each company's go-to-market strategy, branding, pricing, valuation, everything.

Basically all the things you want to know about how to survive the tank and scale your company on your own.

If you want to give it a listen, you can find Another Bite on whatever podcast app you listen to, like Apple or Spotify or whatever you're using right now.

All right.

Back to the show.

Okay, so Austin Alred, is that the way you say your last name?

Yep.

Yeah, so Austin Alred's here.

He's the founder of Lambda School, which I've just been shamelessly pimping on the podcast for like a year, so you probably already know about that.

He's an interesting dude, and I don't know which Austin we're going to get.

There was controversial Twitter, Austin that was around for, I don't know, like a year, and then like cleaned it up a little bit, tightened it up as the company was growing.

So I don't know, are we going to get tightened up, Austin, or are we going to get Lucy Goosey? You can request.

Oh, for Lucy Goosey, for sure.

My column team isn't listening right now, so we're good.

Right.

Dude, I'm in it for the clicks and the listens, so, you know, the more controversial and interesting things you say, the better.

So can you give Sean and Austin, can you give background?

What is, his business is called Lambda School.

What is that?

Yeah, so we train people to be software engineers and data scientists in live online classes, but we don't charge anything until you're making more than \$50,000 a year after the program.

So if you have ideas, if we can de-risk education for people, then you can kind of go for the education that you ought to, and incentives are aligned between the school and the student, so we don't get paid unless, and we don't make money unless you're successful.

And that's kind of how we think it should be.

So like a free school and you get a percentage of their, of the revenue that the student, the percentage of the salary that student makes to a certain point, and that's how you get paid back.

Yep, that's right.

So basically we get 17% of salary, if and only if you're making more than 50K a year,

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and then once you've hit \$30,000 or 24 payments, monthly payments, whatever comes first, it's done.

So it's either two years or 30 grand, whatever comes first.

And if you don't get hired making more than that amount, then we never make anything.

And give people a sense of the sort of scale, because it's been pretty wildly successful so far, and kind of just getting started, but give people a sense of how Lambda School has grown over the last few years.

Yeah, I mean, we started, what was it, three years ago with our first 20 students.

And now, we enroll 300 or 400 students a month.

So we're talking in the realm of, that's a lot of software engineers actually.

It's not the biggest university by any stretch, but we're placing more software engineers and we're thinking about like the UC system, right?

All the UC schools, we're a little bit bigger than that as far as software engineering goes. Then all the UC schools combined?

Correct.

Wow.

That's kind of awesome.

Wow.

So the math is, if you're adding 300 a month, that's \$3,600 a year, if it just stays the same.

You can earn \$36,000 off of that.

So that means you're adding \$130 million of revenue, or a potential lifetime revenue, a year.

Sam, you're just flexing that mental math right now.

Yeah, I mean, I wish it were that simple, but yeah, I mean, so let's say our average student gets hired making \$70,000, right?

So that student will pay back just less than \$25,000, but we'll round it to \$25,000 for a sake of simplicity.

So if we're getting 4,000 students a year hired, then that's 100 million a year, kind of over time run rate.

But you have to finance those ISAs, so we basically borrow against them, and we pay a lot for that.

And then every student that either drops out or doesn't get hired, we don't get paid for.

So those cuts are, that's a difficult thing, right?

And so you think about a university that had a 75% graduation rate and a 75% hiring rate. Those are pretty good numbers, but really quickly, 50% of the students who enrolled were successful.

So those multipliers eat in really quickly, and that's the name of the game, is making it so that as many of the students who you can possibly make successful are successful.

That's why the incentive align matters, because traditional school, you enroll, and whether you get a high-paying job or not, of course they'd like you to get a high-paying job, but they don't need you to get a high-paying job.

They got their money either way.

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And so for you guys, it's not that you're nicer people than everybody, it's that the business model actually depends on you successfully getting people high-paying jobs, which is what they want too.

And so when everybody gets excited about Lambda School, they always talk about ISAs, which is like this mechanism, it's income share agreement, but that's kind of missing the point.

It's more about the fact that your success is tied to the success of the student in a way that a normal university is not, and that's why your product is going to be better.

That's why you're going to train them better.

That's why you're going to hustle harder to get them jobs.

That's why you're going to filter candidates better, because you need that to work for your business to work, and that's not the case for a traditional school.

Yeah, there have already been a few points where we've kind of looked around the room at my executive team, and our executives are like, they're the best in the world at what they do, and you look around and say, we are at a point right now where we're doing a pretty damn good job, and if our only incentive was to produce a report at the end of all this or something, we would be patting ourselves on the back, but we're looking at our business model and saying, oh my gosh, no, we need to drive so much harder, we need to do so much better to get to where we want to be.

Yeah, I think you're right.

The ISA is cool, but the ISA itself isn't that interesting.

It's a more flexible financial instrument for students, but the incentive alignment really is the key, and we'll dump millions and millions of dollars into getting our hiring right up a couple of points if the math works like that.

How old are you, Austin?

I'm 30.

You're only 30.

Wow.

Okay.

How much money has the company raised?

Just over \$120 million.

And so you guys have only been around for three years.

How the hell does that happen so fast?

When I first talked to Austin, I remember we were talking, I was like, hey, I want to invest this company.

And at the time, I remember you had, in total, graduated 80 students.

I was like, there was 80 students total in the pipeline, including graduated and not graduated yet.

And I remember that same math you just did where you got to, like, takes about 4,000 students to get to about \$100 million in revenue.

That was the math I did.

I think I got all of the variables wrong.

Like the wrong assumption of how much you keep, I had the wrong assumption of whatever.

But I also got to 4,000.

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I was like, oh, he's going to get to 4,000 for sure.

And you've, you know, you're on your way now.

But anyway, sorry, that's how great that wasn't that long ago when it was like 80 was the total number of students who had even experienced the goddamn thing.

Dude, Austin being 20 wasn't that long ago, like Austin losing his virginity wasn't that long ago.

And that's really what everybody needs to know.

Now they're talking like in the \$100 million range business.

Well, I mean, to be clear, that's like \$100 million of like, you know, I almost think about it like GMV, right?

Like we don't, it's cute to say, look, if we get 4,000 students hired, then we'll eventually get that.

A, we're not getting 4,000 students a year hired.

We're a fraction of that.

B, the financing mechanism is probably the most important and most misunderstood aspect of Lambda school, because the, the cost that would, you know, if we could raise half a billion dollars and then just sit there and wait for that \$100 million to come in, we could do that.

But that's not, that's not how it works, right?

Like, so our, our equity investors do not want to put in, you know, a bunch of money to buy ISAs.

They want to, they want to build a technology company.

And so we have a different, different pools of capital that are for basically borrowing against the ISAs.

And you have to, you know, so you kind of take what is the expected revenue per student at, you know, early on in the program, and then you discount that a little and we can borrow against that.

And then after that, it starts to trickle in over time.

But how, how, how big will this get, you think?

I mean, multi-billion dollar a year business.

Yeah, for sure.

I mean, so I, you know, think in terms of students, right?

So, I mean, it's not going to be easy to get there by any stretch, right?

Like there, there's a reason no one's done this before, and that's because it's just really freaking hard.

But from, from a kind of macroeconomic standpoint, right, think about how many people there are in the United States who are making \$30,000 or less, who could be making \$50,000 or more.

And you can, you know, you can move those numbers to 40 and 70 or 30 and 50 or whatever, right?

Like the number is outrageous.

And think about how many companies would hire those people if they had the right skills.

That number is outrageous too.

So the difficult thing is you have to close that full loop.

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So you have to take someone from having never heard of you to hired and repaying, which is like three different businesses baked in there.

And then you have to have that right match, right?

So it's not too dissimilar from a two-sided marketplace in some instances where you have to find the right person, you have to find the right company, you have to train the person, and then you have to get the person there.

And they're different mechanisms of doing that.

But it's, so it's, it's really difficult to do, but if it works, it's really, really powerful.

And last question for me on this, how do, how many people work there?

Right now, 170 in change.

Damn, this is a lot of stuff to do in three years.

Sam, you know, we're, we're, that's, that's full time, we have, we have full time or part time kind of TAs.

We've got about 300 or 400 of those.

So it's a, it's a big organization for sure.

What are we saying, Sean?

Sam, when we were going through the acquisition process, I was like, oh, it's either going to be this big company, this big tech company, that big tech company, or this big tech company.

And I was like, damn, where would I actually want to work?

And I was like, I was like, the only company I'd want to go work at to earn out of any deal would be Lambda school.

That was like the most exciting, it was like top of my list.

So I emailed Austin.

I was like, Hey, you want to buy my company?

It has nothing to do with what you guys do, but we've done some live video stuff and we're pretty smart.

And he's like, all right, well, you know, you know, yeah, you looked at it and then I was like, you know, we'll take, you know, 7% of Lambda school and he was like, yeah, no reply.

But I was like, that would have been, you know, I think every kind of five years is like a handful of companies that are really interesting to work for.

When I moved to Silicon Valley, those were like Stripe and Angel List.

I thought we're the two most interesting companies to work at.

They were small at the time, but I thought they might get big.

And right now I would put Lambda school in that bucket with, uh, I don't know what else I would put.

What do you think, Austin?

What are the other like?

I was super curious who else you're going to name.

Let me think.

Like I think about who like the hot companies are.

I think Flexport's kind of interesting, um, dude, I don't want to hear that anymore.

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That's been there.

Done that.

We all know, we all know that's bad.

Yeah.

Four years ago, it would have been the one.

Like Airbnb and Uber at, you know, in the 2009 range, 2010, 11, whatever.

That was like the time when, when those were really exciting.

Yeah.

I think, I mean, when I was starting Lambda school, so, you know, a couple of years ago, the ones that I was like, Oh my gosh, these are going to be incredible companies, um, air table.

I was just like, Oh, that's, that's going to be a winner.

You could already tell.

I'm sitting with Notion for, I mean, for different purposes, uh, super, super human.

And it's just like, Oh, finally someone's making a great product in this super, super obvious space.

Um, I'm in love with room research.

I don't know how big the business gets, um, but I think it's super interesting.

It's still super early.

Um,

I don't want to hear about room research.

I can't stand this shit, man, I like, because like, it's like, I'm sure the, the, the creator seemed cool.

The product seemed cool.

It just doesn't make sense to me how a note taking app can, so I, I'm a, I'm a small time, I'm a part owner in a small note taking app and it does 80 K a month in revenue, which is probably what Rome does.

And I'm like, wait, what, how does, how does this company raise at a multi a hundred million dollar valuation?

I don't get it.

I don't get how you could do that with a \$5 a month thing.

Well, companies that VC companies that VCs understand in general get like a 30% premium, uh, on, on everything, um, you know, because they can explain it better to each other.

Um, as they all get it.

But, uh, but yeah, Sam, this is good.

The more you, it's like when you insulted Gen Z and they all came for you and they all discovered our podcast is the same insult the Rome research cult and they'll all be here to defend themselves up in arms.

It's crazy, man.

I don't get it.

Like here, like here's what your computer gets by pen and paper.

I don't get it, but whatever.

Um, awesome.

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You should tell people about, um, I know you probably told the story a bunch, but frankly, it's kind of, it's kind of a great story, which is you're like, I was sleeping in a car before I, before I, you know, started Lambda school type of thing.

Uh, so explain, explain that story.

So you, you come to San Francisco, you want to live the dream and you, how the hell, why were you sleeping in a car?

Yeah.

So I mean, going back a little bit further, um, I, I was going to college as a BYU in Provo, Utah.

Um, and I was just kind of like, I always knew I wanted to do something entrepreneurial and I'd always loved technology and for some reason it didn't click until I was like 20 that that was like a thing that you could just like go run tech companies.

And I was like, Oh my gosh, that's awesome.

Um, and there's this place called Silicon Valley.

And so I would, you know, and the Provo scene, like the Utah startup scene is, you know, it's, it's getting there now, but at the time there had been kind of omniture and there was word perfect, but it was a very sales driven culture, um, for a variety of more many reasons.

Um, but I, you know, I've found that like everybody was just like, Hey, let's build a marginally better crappy product and let's just go sell it like crazy.

Yeah.

And the, I mean, that works, right?

Like that totally works.

Um, but I want it like, I had a real love for product and design and like the way things worked and like, you know, changing the world in a way that you can't just like, you know, let's make a new SaaS app for dentists and like, let's sell it like crazy.

All right.

And a quick message from our sponsor, you know, I was thinking about the shortest day of the year earlier, and while we technically have the same amount of time as every other day of the year, the lack of daylight makes it feel so much shorter, which is exactly the same kind of feeling as working with disconnected tools.

Our work days, the same length as always, but before you know it, we spent three hours just fixing something that was supposed to be automated.

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So I, I was pretty frustrated that I couldn't find that there and I wanted to be a part of that.

There was even more than just Silicon Valley, it was like, I want to be in somewhere where they make great products, they make great stuff and you know, the culture in Utah was like, yeah, we'll find a developer off the shelf and they can like build the thing so

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that we can go sell it and like, that was where the excitement was, but I didn't have any money.

I didn't really have a job, I didn't really have any, you know, super tangible skills.

And I saw on like Hacker News, there's some guy who'd like Reeve, like reworked his Honda Civic to live in it and I was like, oh my gosh, I have that same two seater Honda Civic.

And crazy as it sounds, like I started looking at like rent in the Bay Area and it was like 800 bucks a month and I was like, I can't afford 800 bucks a month.

That's ridiculous.

Right.

For one reason.

Yeah.

So I just put an air mattress in my car and drove out there and said, I'll figure it out and eventually did and it worked out.

What was your job before Lambda?

I did like some marketing agency stuff, like some SEO stuff when that was a thing that people, like that was a career path for a while was like, you could do SEO.

In San Francisco?

No, just freelance, like there's actually a company that I got connected into randomly that they needed like SEO copywriting, right?

So it wasn't like real SEO is just like, hey, we need content about this thing and we don't even care what it says.

So we just need like, we just need, we just need a monkey to pound out some words and I'll pay you like \$5 for every 500 words that you pump out.

We need 2000 words and 25% of them need to say the word email.

Totally.

Well, and I, yeah, I was working with a buddy on it and he probably had the better methodology.

He would get super high and just like crank stuff out like crazy while he was tripping and nobody cared because it said the right amount of words and the right, you know, phrasing.

But I never, but then, but then you, you like, you like thought of this idea and then you went through Y Combinator and that's kind of how you got there.

Was there an in-between?

So you go to San Francisco, you're in your car.

What happens between there and Lambda school?

Yeah.

So actually I, I started another company between there and Lambda school.

So that was a, we're saying, Hey, social media is all over the place, but it's not fact checked and we're still relying on these reporters who are at the end of the day, just like random people on social media, trying to like figure out what's going on.

So we built like a crowdsourced newsroom, kind of a Wikipedia for journalism, basically, where you can go in and the product would let you like, pull in sources and fact check them and kind of try to do that in real time.

It was semi-working, but it didn't, I mean, it was so far from actually working, we had a bunch of users, but far from a revenue model, which turns out is, you know, you want to

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be close to a revenue model.

So it raised a little, like half a million dollars burned through that and there's a long story and it ended up going to zero.

And then went to work at a company called LendUp, which was a kind of YC company in San Francisco.

So that was basically me moving from, hey, I'm like 10 steps away from money changing hands.

I want to get as close to the money as I can.

And so I kind of went down the FinTech route, which is a lot of why Lambda School worked because I was always thinking about risk and capital markets and, you know, how you can move money from one place to another and what the IRR needs to be to make that happen and how securitizations happen and stuff like that.

And then when Lambda School was just getting started, I was like, wait, there's got to be a different way that you could, you know, think about this risk and shift it around and pool it and that kind of thing.

And you, you're Mormon, right?

From, I just went and lived in Utah for, I mean, I lived in San Francisco.

I gave up my place.

Now I just live on Airbnb's and I picked Utah because the Mormons fascinate the shit out of me.

You know, Sean and I, our friend, sometimes when I'm out or Sean's out, he's our friend named Stu subs in for one of us and he converted to Mormonism, which is weird because no one in his family, no one in his family is Mormon.

Like I've never heard of that.

And so he kind of like taught me about it.

And then I also had a friend of a friend with Josh James, the guy who started amateur and he like would tell.

And so I'm like crazy fascinated with Mormons and the culture there was so unique and interesting. What is it that makes this so, this high penetration of interesting startup entrepreneurs?

Yeah.

I think it's a few things like the, for me, the most formative period of my life and by a lot was serving a mission.

So for those of you that don't know Mormons, when they're, it used to be when they're 19, when they're 18 now, you basically put in your papers and you say, Hey, send me somewhere and I'll go teach people about Jesus and do service all day, basically.

So I put in my papers when I was 18 and then what they called a mission call.

So basically a letter comes and you gather around with all your family that says, you've been called to serve in this area.

So for me, it was Donetsk, Ukraine.

So Eastern Ukraine kind of up against the border of Russia.

So you spend a little while trying to learn the language and kind of getting your feet wet.

And then you're basically just shipped out and you have to figure it out.

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So I had to learn to speak Russian.

You know, I, I went on my mission and like crazy ask to be like, yo.

I just learned to speak Russian.

You only have two years on the mission anyways, right?

So it's like, what do you, it's, it's that, that crazy dude.

What happens when you're, when you're family immigrated here?

Like that's just what you do.

Right.

I mean, so many people have to do that.

Well, it's one thing to do it like kind of on your own choice and your own accord.

Like I want to go to America.

That's why, you know, and I speak a little bit of English, I'll improve it versus like you're told, Hey, an organization, it is for you start brushing up, you know, you want to, even if you wanted to spread the gospel, you, you literally have to first learn a language which takes months.

So what did you even do the first few months when you don't know how to speak Russian?

Yeah.

So you go to the missionary training center and that's like, uh, like Lambschool is kind of modeled after that actually.

So it's like, you show up on day one and by the end of the day, you're like, you should know the alphabet and you should be praying in Russian, right?

And obviously it's terrible.

Um, and you don't understand cases, you don't understand the grammar, but like you just school equivalent of day one, what do you know?

Day one of Lambda.

I mean, day one, you should be submitting your first pull request, right?

Like, um, and I don't think that's actually day one anymore.

That's, uh, but like, yeah, you're going to build your first website using HTML and CSS.

Like you're going to go, um, and the pace is intense and it's very much like you're going to get thrown into the deep end and figure it out because that's the only way anybody learns anyway.

I mean, like I, so I, you know, I came back, you know, spoke Russian fluently, um, and went and took a couple of college classes and they had, you know, a way that you can like test out based on what your level of Russian was.

I think I got like three years of full, like I got like a hundred credits of Russian and you know, you still go into the Russian classes of the people who weren't living in the country and they're like, you know, trying to figure it out and like, oh my gosh, there's, there's no way.

There's no way.

Um, so there's definitely something to immersion and just like getting thrown in.

Mormon question.

Do you keep track of how many people you convert?

Like do you know how many people, you know, sort of heard the message and, and actually

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like sort of went down the path?

Yeah.

What's your like your quota?

Yeah.

I mean, so it depends a lot.

Right.

Um, if you're in South America or Africa, it's very different than Eastern Ukraine.

Um, so in my mission, if you converted anybody, like over the course of two years, that was a win.

Like one is a win.

Yeah.

And like that, my friends in South America, like, you know, two or three on a weekend is normal.

Um, so it just totally depends.

Um, and then the Ukraine's don't, the Ukraine's don't need Jesus.

They're just not into it.

I mean, take 25 years of government forced atheism and then layer on, Hey, where this American church you should join, like it's, there's not product market fit there to say the least.

And that's how you get good at sales.

Yeah.

Stop drinking and smoking and only have sex with your partner who you're married to.

Like that just is not, it's not interesting to the average Ukrainian.

So what was your approach?

How did you go about it?

What's the sales funnel?

Yeah.

It's a really good question.

Um, there are a couple of ways.

First is English classes.

So I taught an insane amount of English.

Um, and for a couple of reasons.

That tends to bring out people who are a little bit more open-minded about, like, if you're like hardcore Russian orthodox, you wish you could go back to the Soviet Union, like you're not going to come to an English class.

And a lot of people, I mean, it's just a different culture, right?

Like people thought we were spies.

People did not like Americans.

They did not trust Americans.

Um, they were kind of bummed that capitalism was a thing because their version of capitalism is basically run by the mafia, um, so it's just super, super different, right?

Um, then the other one is just sheer brute force numbers.

So I, you know, there were probably six months at a time where I would spend 12 hours a day

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knocking on doors or approaching people in the street and your top of the funnel is huge.

And it doesn't, you know, your funnel is not very efficient.

And if you have a sales funnel like that, at most companies, you would get fired.

Um, but that's just what you did.

So were you like extremely motivated every morning when you woke up, like, I'm going to do this?

Or was it like, well, no, I'm going to enjoy the Ukraine and I'm going to do a little bit of this.

No, it's super sucked.

Um, and there are times like months at a time when I was kind of depressed, honestly, and every, you know, that's not unique to me.

I think that's just like when you, so yeah, you keep a really intense calendar and you follow the calendar to the letter, uh, we call them planners, um, and you set goals every week and you report on those goals.

So, you know, everybody in the mission reports their numbers up to the mission president.

Um, and so you're keeping really, I mean, Stephen Covey was, this is, this is business school.

Yeah.

I mean, Stephen Covey, like it basically took the Mormon missionary planner system and turned it into seven habits like that.

This is, this is like, you know, when I, when I hear somebody's time in the military and I'm like, wow, that's an incredible amount of adversity, resilience, and sort of like, you really developed yourself during that time.

But this is that with, um, you know, less of some things, but more of other things, which is like sales, human psychology, uh, marketing, you know, you have to develop those skills in order to be successful here.

Um, so I may only work with Mormons going forward.

Yeah.

Well, while they're, uh, I think McKinsey or Bain, they used to have a joke where it was like, uh, military, uh, what was it?

No, military McKinsey or Mormons.

Yeah.

That's what they wanted to hire.

I think that's Harvard actually.

Was it Harvard?

Harvard Business School is military McKinsey and Mormons.

Yeah.

Yeah.

That's, that's now my, my school also.

That's how I, I now believe.

So is that okay if we just jump right into some ideas because you tweeted something, there's two ideas that I want to bring up to you.

So first is levels because I see you're wearing it and Sean and I were beta testers for it

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and it was cool.

The second is college applications.

You tweeted out something today that was crazy fascinating.

You said that, uh, colleges earn close to 500 million dollars a year, I think from college applications.

What, what's that?

What's that?

I mean,

Yeah, such a strong buildup just like you gave up at the end, say things.

Like what's that?

What's that about?

So you're like the \$40 application I fill out that there's \$500 million worth of it.

Yeah.

I mean, do the math on that, right?

And you actually look at it broken down by like school and it's like, you know, UCLA will have a hundred thousand people apply and they'll all pay 80 bucks, right?

Like that starts to get crazy money.

So isn't there like a common application?

Yeah.

So there is something called the common application, um, which I mean, the interesting thing is if you're UCLA, like you don't want to use a common application because then where's that \$8 million?

Yeah.

You do and you don't.

So the common application, you can basically like set a trigger and be like, yeah, I will accept applications from the common application.

The problem with it is everybody who's using the common application is just spray and praying to everywhere.

It's like indeed.com.

Right.

And yeah, exactly.

It's or like the LinkedIn like one click, apply unless LinkedIn is a sponsor and then it's a different.

No, they're not.

You're either a sponsor or an enemy as far as I'm concerned.

Yeah.

Unless they want to pay us \$5,000 and then in that case, yeah, we'll talk about it.

Yeah.

So the way you use the common application is to get your acceptance rate down because you're going to get a hundred thousand applications of people that aren't really interested in going to your school.

They're just going to check everybody and hit submit.

And now you have a 2% acceptance rate because a hundred thousand people who are never going

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to go to your school, um, applied.

And for some messed up reason, that's like the main metric that the school rankings use like the US weekly school ranking, like the first thing it looks at is the acceptance rate, which is a weird set of incentives to be like the school that turns down the most people must be the best school.

Um, but that's, yeah, that's the other game that people play.

Um, so there is no business down this path is what you're saying.

I don't know.

Like the incentives are just messed up, right?

So you have to like, you have to work backwards from the incentives of like, what does the school want?

The school wants a ton of applications.

It wants those applications to be as expensive as possible and it wants to be able to broadcast as low of an application percentage acceptance as possible.

So maybe they're like, that's who you really need to serve at the end of the day.

Like you can serve this, the would be applicant in that world.

Um, but like the schools have the quasi monopoly.

So if you don't please the school somehow, there's nothing there.

So the business that I saw that was in this space, uh, I've talked about this before.

This was the company I was, I could have invested in at the seed.

It's now a billion dollar plus company, um, and it's called apply board.

And what they do is they, they went to the colleges and they basically realized this one insight, which is colleges make three times more from international students than domestic students.

Oh, that's a killer business.

And so they went to the schools and they said, Hey, uh, you know, if I'm sitting in Malaysia right now or in the Philippines and I want to apply, you know, what do I even, I don't even know that Brown is a university.

I think it's a color.

So Hey, why don't you pay me \$3,000 for every student that you admit that's international and I'll just up your international volume for you.

And the school's like, all right, sure it's success fee based, right?

I'm making 30 K off this person.

I'll give you three.

And so then they went and signed all these deals with all the universities and then they went to the students in Malaysia, the Philippines who wanted to come to the U S and they're like, Hey, we will, we'll make it super easy to apply.

Right.

You, you do a common app here.

I will send that common app everywhere.

And it's like this international student, like, you know, um, what are those like human trafficking things?

It's like that.

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But with a, you know, with, with less evil and, uh, that business is amazing.

It's like Ivy leaguers.

Yeah.

That's super smart.

Yeah.

I mean, the thing that makes money more than anything else in higher education is international students.

Um, and that's one of the reasons that so many universities are struggling right now is I mean, a, yeah, they're the desire to come to America, to go to colleges lower than it has been in a while, um, but they're, I mean, not even because of COVID, the Trump administration is basically, I think at times intentionally being like, Hey, if we, you know, stop this revenue flow, then all the universities hurt and tell those guys basically just suck them.

So by the way, why do schools charge three times more for international?

Like what is their shitty justification for that?

It's a can.

I mean, that's crazy.

It's like, yeah, you guys want to come here so much more than we want you here.

So you're paying full freight or like an in-state student.

We're going to cut our tuition in third or whatever.

Like basically it's, it's international students subsidizing local students.

So I think there's probably an opportunity there to cater to international students who would like to not pay the three X rate.

And, um, and, and so maybe there's a, there's an opportunity to either as a university differentiate by not doing that or, um, like come up with some shitty system that like you apply as a domestic, you create like a body double that sort of, you know, like gets them in at the domestic rates.

Well, I've, I've always been kind of fascinated by this, but like, I mean, you hear about in the old, olden days, people would get into all sorts of colleges and like, I mean, I've heard the number of stories of people applying under a fake name or like, I mean, now I'm sure they've locked it down, but for a while you could just tell a school you had like a perfect SIT and they'd be like, Oh, awesome, like please come here and they never check. They're like, that's crazy.

Um, anyway.

Um, I actually think there's, there's something to schools moving away from the SIT and ACT that's going to be really interesting.

So a new, a new SIT, a new ACT?

Yeah, I don't, I don't totally know what the right angle is, but basically if you look at the, the UC is one of the, they're kind of like the same way California from a regulatory standpoint, whatever California does, a lot of other states tend to follow the UC is kind of that for colleges.

So the UC kind of sets expectations and they're moving away from the SAT and ACT entirely. And basically what they're saying is, Hey, these tests are racist because different populations

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perform differently.

So we need to find a different measure that, you know, matches that.

And they, so they went back and they did a study and the study came back and said, Okay, that's, that's true, but it's also a leveling feature because if you're a poor student who's really smart, there's no way in hell you're going to have the same extracurriculars as someone who, who came from money.

So your only shot is the standardized tests.

Um, so net net, you know, it's going to hurt diversity, but the pushback against the SAT was so strong that they killed it anyway.

And so now there's like this, there's this black hole of like, what is the right way to evaluate, you know, who should become a student?

And you know, one of the main reasons in my opinion that employers are like, it's really easy to hire a Stanford grad because you know, they're going to have a high ACT score. They're going to have a high AQ.

They're going to come from wealth.

They're like, all the risks are gone, generally speaking.

Wow.

So check this out.

Okay.

So I'm just Googling this while we're talking.

You know all about this.

I imagine the, uh, the, so is this how it works?

The college board owns the SAT.

Is that correct?

Yes.

That the company's called the college board and then educational testing service.

That's the one who administers the test.

Is that right?

I don't know what that means.

Administers.

What's the difference between administers?

I think they run like the brick-and-mortar, like the test creates the test.

And then you show up at like a, for me, it was like, you go to a high, a local high school and there's people there making sure you don't cheat and like handing out your scantrons and stuff.

Okay.

So the, uh, so educational testing service, that's the name of the company, ETS, right?

That, wow.

They did \$2.1 billion in revenue last year.

And then the company, the college board, it's a, um, not profit.

So this is all public there in 2018, they did north of a billion in sales and something like, uh, \$200 million in profit, fucking crazy.

And all they, all they do is make the tests.

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That's nuts.

I mean, that's a lot, but that's pretty crazy.

I mean, what they really did is got all of the universities to agree that that was the thing, right?

Like if you have that, then you, you know, you can do whatever you want on the other side.

And the revenue has almost doubled in 10 years.

Yeah.

Um, I mean, it's now like the, and they kind of started this meme that like the reason some kids aren't getting into good schools is because they never take it.

So they kind of, they, they're trying for like a bill that like government would fund taking the, the SAT or the ACT.

So like any high school student just signs up and they get a check from the government.

Um, now that kind of force it into like a hate school districts, you should really find a way to pool money and like guarantee that every student takes it.

So it's, that's good business.

Is there a world where, is there a world where somebody, and by the way, I didn't even look up the ACT, I have no idea how big that is.

It looks like it's a little bit smaller, but in the same book, but in the same ballpark maybe, um, what about, is there a world where this, where a new standardized test could exist?

Well, so I think the pushback against standardized test is going to be big enough and broad enough that I don't know if that's the angle you can take.

I mean, there are companies, um, like Criteria Corp has a test called the CCAT, um, the Criteria Cognitive Aptitude Test, um, it's basically think SAT for adults, right?

For adults entering the workforce.

And there are enormous companies with hundreds of thousands of employees that will use that as one of their criteria for deciding whether or not to employ you.

Um, now there's some legal footwork that you need to do because in the US, um, for basically everybody other than the military, it's illegal to hire based on IQ alone for obvious reasons.

Um, for some reason the military just does what it wants and like, so you can't really get into the military with an IQ of below 85 and the military tests that rigorously and it's fine, um, and everywhere else, you know, the argument is made that IQ is a suboptimal measure, which I agree with, um, but it's also a really easy way for employers to, you know, rule people out or to, you know, find the diamond in the rough or whatever.

So there's, I know there's still something around how do you test and how do you find the right type of talent that is interesting?

I don't know what it is.

So I have a half baked idea here.

Um, when I was in the seventh grade, I took this test.

I don't know if you guys took it, but it's, it was called, uh, the, the TIP, the talent identification program.

Did you guys ever do this?

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We did something similar.

Ars was called the Iowa.

Iowa.

Yeah.

So, so the one I took was actually, it was called the Duke tip program and it was basically Duke university's endowment had created this thing called the talent identification program. They did it for seventh graders, which is kind of like earlier in the funnel before you even take your PSATs, that sort of thing.

And um, they created this and it was their own little test.

And if you took it, you basically got this like certificate that was like, congratulations.

You're like in the program just for taking it and your parents were all happy because like, oh, this university says you're, you're talented potentially.

And then if you did good, if you were like in the top 20% or 10% or whatever, you would get this like special thing, which was like, we have identified you as a talented person that we would love to have you someday come to this school.

And it was there like way of just getting a whole bunch of people to know about Duke and then apply to it.

That's kind of what I did and it worked on me.

Like I literally went to Duke and I remember getting like recognized in this thing back in seventh grade and it planted a seed.

And so I wonder if you could create a new tip program and maybe you do it like for, you know, minority students or in lower associated economic classes where you, you go to certain neighborhoods and you basically host these free things that you can come take.

And then that's your leads for colleges will actually potentially pay to have access to these leads and to market to these students because they want to, you know, hit their quotas, have a bigger, have diversity, but be able to surface out who are the most talented students in these groups.

It's like, it's like your barb system.

Yeah.

Yeah.

Totally work.

Totally work here.

You're all of the, you know, minority kids who test really well on this thing that you probably want to come to your school, you're going to pay me 500 bucks a lead to start marketing to them now.

Exactly.

I mean, actually, you can pay me 25,000, I'll do the marketing for you even better.

Right.

Yeah.

Like this, like this engine that just functions for the universities now that I don't know if some people are going to probably think that's, you know, a little predatory or whatnot.

But I think, you know, I'm just throwing out ideas here.

You want to hear something crazy that I, that I've, I had a, I knew guys who ran GMAT quiz

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companies, like GMAT study supply, you know what I mean, teaches you how to do on the GMAT.

Yeah.

I think you would tell me that a qualified lead, like someone who is X smart or, you know, like whatever, I don't know how to qualify the lead, but like they would charge or they would pay Harvard and many other schools, something like two or \$3,000 per lead.

Is that accurate, Austin?

For what?

Like what was it?

Like an MBA school lead, like someone to get on the phone with you about why you should apply to Harvard.

And for a while there was like the, the education, like hot swap market.

So like, if you could get someone who is on the phone, who is willing to like sign up for a student loan to go to University of Phoenix, like, yeah, easily couple grand, right?

And like, there's some schools, if you're tuition is \$45,000 a year and you're like an online school, you have a \$15,000 CAC per student and not care, which is like messed up.

Right?

But the reality is, I mean, the, I mean, it's just math.

Yeah.

But like the value that they're giving versus, yeah, the willingness of people to sign up for \$45,000 of student loans after a phone call is what's messed up, right?

Like that's, that shouldn't be true.

The reason it works is because these guys like University of Phoenix, they were able to tap into the government financial aid.

So if I had to give you \$45,000, I wouldn't do it, but if I just get to go to school and I'm going to take out this loan and it kind of feels like this later problem that I don't have to worry about, um, and then you don't deliver on giving me a diploma that helps me get a good job, then that's, you know, fucked up.

Yeah.

I mean, they're, they're, so this kind of caused this environment where for a long time there are a bunch of schools that had like higher student loan default rates than graduation rates.

Right?

So like 40% of the people who are taking out loans to go to your school are defaulting and 20% of them are graduating and it's just like, oh my gosh, that's, that's a travesty.

Um, but yeah, I mean the reality is if you can, we've created this weird world where it doesn't phase people, the thought of paying \$40,000 a year in tuition and the fact that that like people definitely don't understand the interest on that, right?

Like if you're, you know, if you go to NYU and you have \$100,000 in student debt and you're paying off a thousand bucks a month, you can pay that for the rest of your life and you won't even touch the principal.

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Um, and that just like doesn't, it doesn't sink in with people.

Um, so that's, that's, that's the tough part.

Austin, this whole idea of these tests, I find to be just like crazy fascinating.

Another test that I, I was obsessed with for a little while and I just consider, you probably know a lot about this is strengths finder, strength finders.

Is it strengths?

You know, I'm talking about strength finder, uh, it's owned by Gallup, which is most famous for their polling, but they own this thing.

Do you know anything about that?

Yeah.

There, there, and there are a few different versions of it.

Um, basically to the listener, it's like a \$50 test, right?

It's a personality test.

It's a \$50 personality test and it's famous for the book, strengths finders, but sorry, go ahead.

Yeah.

And there, there are a few different versions of this and there are some, um, you know, like every, every ATS has their own little version, right?

So hired has their own version and LinkedIn has their own version.

And it's just like, if you, as an employer, think that you can get a person to take the test and then it will make you N% better at hiring than, yeah, what's a \$50 test?

Who cares?

Um, but then you do the math on the other side of that and like, Oh my gosh, for, for doing nothing, you know, you have to develop the test and that might cost you a hundred thousand dollars.

Um, but then anything on top of like 2,000 people taking it is just gravy.

That's a great business to be in.

How big do you think that strengths finder thing is I've been trying to figure that out.

They're privately owned.

If you told me that that \$150 test makes \$200 million a year, I wouldn't be surprised.

I guess it's in that.

Let's see.

Strengths finder.

What's the name?

I guess it's Gallup.

So usually I can like, it's like bundled.

Yeah.

Usually you can like try to back into it by number of employees or something.

I've been trying.

I've been trying to figure this out.

I've used web archive.

I've used everything on their website.

They'll say like this many people took it and I'm like, okay, I guess that's the only

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guest estimation that I have.

What's the number?

How many people?

Over a hundred million people have tried it.

It says.

Oh, it's got to be, I guess 200 to 500 million a year business.

I have no idea.

I'm totally guessing, but like.

That would be nuts because they do it one time.

So Austin, I'm curious before you came on the podcast, I don't know if you had any time to think about one or two ideas that are interesting to you that you think that, you know, so the audience might be interested in, or just, you know, half-baked startup ideas that you can't pursue because you're running Lambda school.

We'll give us some ideas that are cool to you.

Yeah.

There's one that I've been thinking around the edges of it and I can't quite like.

So it came partially from my experience running Lambda school, partially from, if you read the blog post of Frank Slutman, who is the CEO of Snowflake that just went public.

He talks a lot about how much activity at companies is wasted.

And then there's a whole kind of lean thinking and lean methodology and lean manufacturing and all this stuff.

And I'm getting a bunch of books about that because I want to run a very efficient organization at Lambda school.

So I've been trying to figure out like, is there a way that you could parse out like how much, and again, everybody that works at Lambda school, I'm sure is working on really hard stuff and they're working really hard.

But I'm not sure that if I knew what everybody was working on at any given time and I were playing God that I would be focusing that amount of time and effort on that thing.

So I'm trying to figure out, I mean, I know some companies will use like Asana in a way that will like, figure out what everybody's working on and make sure the prioritization makes sense.

But I don't, I feel like there's missing product there, especially in a remote world where everyone's just kind of doing their own thing and everyone's working long hours.

But I guess something like 90% of the effort is just unnecessary.

It's like finding a way to channel that.

Right.

How do you find all the slack in the system?

That's not laziness.

It's, you know, some combination of like laziness plus, you know, just not being focused on the high priority things or chasing down the wrong, going down the wrong rabbit holes.

This idea that I'm going to say is definitely extreme and I might get roasted for bringing it up, but let's just like play it out and listen to what it is, which is there's this guy named Joe Lamont.

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You know who Joe Lamont is?

Yeah.

Really?

You heard of him?

Yeah.

Oh, yeah.

I don't press over.

Okay.

So then it sounds like you have some type of experience with them, but you can talk about if you want.

But basically Joe Mont, some billionaire guy who has his company, software company, he buys software companies and outsources the jobs to India.

And then he was, he got in trouble because he would install this keystroke software into the Indian employees computers so you could see their screen and where they type at all times.

And like that sounds evil, sounds crazy, but like, I mean, I mean, obviously it would work.

Right.

Like that's when, and I've seen there is a, there's a company, I think this NYC called squiggle or something where it would basically like, the idea was, Hey, you want to like even, it's trying to find a non-invasive way of doing that.

And I think they ended up like, they would take like pictures of your screen and a picture of you and like share it with everybody else at random periods, but like, and I think they were legitimately trying, yeah, they're legitimately trying to do like, you're working remotely with a group of people, video conferencing is really high bandwidth, what's like a lower bandwidth solution to that thing.

I don't think that's the right solution necessarily, but there's something there, right?

Like the coordination problem and, you know, the crossover thing you can, you can debate whether or not you would want to work with a company that puts a keylogger on your computer and I think you'd have.

Well, the answer is no, you would not want to, but like what, I would want to objectively see the results to the experiment.

I would not be surprised if they are phenomenal.

I would not be surprised one bit.

I know a tiny bit about crossover and Joe.

So then you'd have to ask yourself why and like, is there a way where this is, you feel more comfortable doing this that is something similar?

Right.

So there's two questions, right?

First is, is Joe or is crossover just willing to pay people that wouldn't have that job any other way?

And like, I mean, they're being open to everybody who will take a programming test to decide if you'll be a programmer and then paying them like 30 bucks an hour.

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Like, yeah, you're going to find people that do not love the idea of that software being installed on their computer, but for 30 bucks an hour, I'll do whatever you want because I'm in Bangladesh and I will live like a king if you pay me that.

And just because I know someone's going to take that out of context, I'm not talking about Bangladesh.

I'm not like, the fact of the matter is there are places with lower costs of living and lower salary expectations and you can pay those people more.

So now that I've dodged that bullet, the other end goal is our trick is we just step in so many muddy, you know, puddles that, you know, people can't pick which one.

We paralyze people who want to cancel us by saying so many things that, you know, off the cuff that it just becomes a safe space, actually.

Austin, do you know what WAP is?

Yes.

The last episode, we put the lyrics of WAP into the GPT three thing, the A I think it had it right, more sogs.

I did it today.

It came up with a great new song called Walk the Plank.

I'll tell you what it's about.

I don't know what that's a euphemism for, but okay.

So anyway, the other way is you could find a way to get the same like effects for the employer or the organizer without being quite so like, you know, like Key Lager in the US would not work.

But is there something that's a little lighter weight?

I think Stan Lesson was working on a company that was doing something like that for operations heavy companies where the idea was you have people who are like doing very rote, regimented operations heavy stuff all the time, but they don't think like a programmer, so they can't be like, okay, here's exactly how you should automate it.

So the idea was, you know, the software will watch you do the thing and then we'll kind of spit out the instructions or the playbook or what that is and then you can have a programmer running in behind them and automating it, which is a lot, but I mean companies like Flexport, there's a whole lot of that happening, right?

Like there's this company called CS Grocers.

It's based in somewhere up here where I am in New York.

It's the maybe the third or fourth or fifth largest privately held company in America and it's a grocery, they wholesale groceries to, you know, stores and they made a change in the 80s where they started paying their workers by their warehouse workers.

They would give them a small hourly rate, but then a, they had to hit a quota for boxes packed.

Oh, I know that.

It's fascinating.

I wrote all about it on my Twitter thing, I'll share it to you.

If you Google CS Grocer, warehouse workers incentives or something, it's a pretty famous case study, I believe, but they like built all this great technology to try to automate

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a lot of stuff.

And then for the workers, they just changed how they paid them and like revenue like went through the roof.

They're like, all right, we're not like, this is just fair guys.

We're not just going to like people just start packing like so many more boxes.

I mean, that's the old like Charlie Munger like analogy of when he, you know, he's there's a guy who's working for FedEx and they're trying to like get these airplanes packed on time.

And every night they're failing, they're trying all these different things.

And finally it said, you know what, we're going to show up on Friday or whatever.

And as soon as this plane is packed, everybody can go home and it was like, okay, two hours they're out of there.

Incentives.

I mean, that's supposed to be his analogy, yeah, about the importance of incentives, but I've, I'm trying to figure out if there's a way to do that within Lambda school that's not draconian, I haven't found it yet, but I'm super interested in that.

I've told this story before, but I worked at this place with this kind of crazy billionaire guy.

I worked under him in Indonesia and he, he bought this software from Boeing that Boeing used either it's Boeing software or the same software Boeing used and they used it to like manage their factory.

So the same sort of thing.

Whenever you have this like kind of assembly line process, you can kind of just measure inputs and outputs quite, you know, it doesn't feel like it's like a human question.

It's like, you know, how much are you inputting and how much are you outputting?

And he used it in our office with people on their computers and basically like everybody on the, on a giant wall next to everybody was this huge projection and everybody got one, every square represented one person in the company and it would just have this like color and like this like meter basically based on how productive you're being and nobody really even understood what is measuring and how it all works.

You just knew it's something's installed on your laptop and you would just like furiously try to do shit because you just didn't want your shit to go red.

And so like it was like placebo productivity, you know, in a way, but you know, he could do it because he was, you know, pretty crazy.

He had all kinds of crazy.

Like if you got pregnant, he was like, the woman needs to be at home so you no longer have a job here.

Like he was like pretty wild and is now is now actually in jail for, for, you know, different frauds he committed, but it was a very interesting work experience nonetheless.

I have two more quick ones.

And obviously you guys want to be Lambda school for many things, all the valuable ones and let everybody chase all the not valuable ones.

So what do you think when you just see a new Lambda school for X come out and what do you

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think are the ones that you guys are going to pursue?

And what do you think is something you're not going to do that other people should?

I mean, my first answer is always like, Oh, good luck.

Like for a while it was just like, Oh, Lambda school, that's like I ran the math on that.

That's easy.

I'm going to do that.

And a year later they're like, Oh my gosh, like I have to get five things working and none of them are going to work.

So this sucks.

I don't know.

Yeah.

Can I tell you that?

Has anyone successfully done it?

I haven't seen anybody make the model work yet, which is saying something because there have been, I don't know how many, I mean, the one model that does work is like, Hey, you're going to owe us 10% of your income for five years and here are a bunch of videos.

Like it's hard not, not to make that work, but it's not like, it's not going to get big either.

What does it cost y'all to educate somebody?

Us?

Like north of 15K.

15K.

Right.

So you, so you have to basically make sure that you're able to recoup that.

Whereas if you put the videos up on a website, okay, your cost of educated.

Yeah.

And then you, you might, you know, your average successful student might pay you \$30,000.

You might make \$2,000 a student, but if it costs you 500 bucks a student, who cares?

That's just a very different business than the one that we're running.

And I don't think it would grow very well because people would, you know, eventually you're going to find a different way to do that.

We have the intensive, expensive, high quality one is pretty difficult to make work.

I had a guy pitch me one this morning, give me your instant reaction to it.

So he said, it's Lambda school for mortgage, mortgage loan officers or something like that.

It's basically like the, the loan officer who issue, who issues mortgages.

And what he was saying was that, you know, there's this large, you know, same thing as software engineers.

Like there's, there's more capacity for hiring folks who can do this than we have folks who are trained to do it.

The current model for how it's done is like kind of broken.

It's like run through a bank, you have to like get certified in this like slow process by the bank or something like that.

And basically it was like, you know, in two months you can get trained and certified to

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be issuing these.

The people who are high volume at this are making like 300 K a year at the bottom end.

They're making like 70 to 100 K a year.

And with interest rates being so low, there's just a, you know, high demand for people to, to be mortgage lending professionals.

So what's the Austin Allred official quick take on that?

I mean, my first response is just a lot of nervousness around macroeconomic environment.

Like, I mean, that's, that feels like a short term arbitrage that might work for a little bit and then go away.

A part of that is because I don't believe, I mean, I don't believe that mortgage officers add like an insane amount of value versus like an quasi automated process.

So I'm nervous about the long term and the short term you could probably, I don't know enough about the industry.

You could probably spin it out, spin it up and get some cash spitting off.

Like the interesting thing about that is like, you can't like fail at becoming a mortgage officer very easily, right?

Like the reason Lamschool is so difficult and so powerful is because you can, it's really hard to become a software engineer, but when you are, you get, you get paid really well.

And so that's just a different end of the market.

What's the likelihood that you guys are going to just fail miserably?

I mean, is this a company that like, like if this works, it's going to be the biggest thing ever.

And it's going to be massive, or is there a likelihood that you just go to zero and

I mean, you know what I mean?

There always is a probability.

What do you pay your probability a failure at?

A few percent.

That's a pretty good, I mean, I mean, that's a pretty good, I mean, I mean, I mean, I mean,