

[Transcript] My First Million / Asking The Founder Of Grammarly How He Built A \$13 Billion Company

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.

So basically, we've birthed Facebook friends down, so we talk a little bit there, but I first met you at HustleCon.

I think this event that I hosted in 2019, and you're one of the best people we've ever had.

We've had hundreds of people, and I'll tell you why, two things.

The first, I think you spoke right when, so this is Max, he started Grammarly.

We'll do an intro in a second, but I think you spoke when you guys had just raised maybe \$100 million at a billion-dollar valuation or something like that.

Is that right?

Yeah, that was 120, and we didn't disclose valuation at the time, but I think I'd heard rumors and I just am guessing it was in that range, and it didn't matter, but basically I made a comment to you, I'm like, that's pretty cool, right?

And you kind of replied back, you weren't cocky, but you were very confident and still humble, but you kind of had a grin, and I forget exactly what you said, but it was something like, yeah, it's going to get much bigger too, and I loved that subtle confidence.

And then at the event, what you talked about, I don't even remember the title, but the idea was basically, you're an engineer, but you've done a really good job of evolving past just engineering, and you said this is how I engineer good products, and everything you looked at was from an engineer about reverse engineering different stuff, and I thought that was incredibly fascinating.

Do you remember what I'm talking about?

Oh, yeah, I do.

I remember that.

I actually use it mantra a lot inside the company as well when we look at different markets and where to go next, and it's just a universally good framework that works for many things. Yeah, just kind of looking at things narrowly, identifying a sweet spot, and then just going broader from there.

Max Litvin, he started this company called Grammarly.

Before Grammarly, you had another company called Blackboard, I think, right?

That was not my company.

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That was a company that bought my company.

So my company was MyDrawBox, not to be confused with DrawBox.

It was a plagiarism detection company, and it was bought by Blackboard in 2007, and then they spent two years with Blackboard, kind of a part or an out part just being there.

And that was like a, compared to Grammarly, a mild success, right?

Like it was financially good, but it wasn't like this huge, huge, multi-billion dollar company.

Oh, yeah, that was just a start.

It could have grown big, but education was at the point a relatively difficult market to be in and wasn't as big of a market, plus our product was fairly narrow.

It was just doing one thing for one group of people, so we kind of saw that it can grow to this point, but further it's going to be very slow and very difficult.

So that's why we decided to sell, plus we had bigger ideas.

And you started Grammarly, and at this point, can you reveal, can you reveal how big it is?

Because I, like, it's shockingly large.

Yeah.

So we raised that 13 billion valuation, and we disclosed that valuation.

I still think it's a conservative one.

Why?

Because Grammarly is a very non-standard company and very non-standard product.

It's easy to see it for less than it is, and that's kind of reflected often in perceptions of everyone, of investors, of sometimes even potential team members.

We have to explain why it's big, but that also helps with last competition.

And by the way, you guys bootstrapped it for a long time, so you and your co-founder, it's not like you own 4% of this company.

You guys probably own a very substantial amount.

So actually, you're on paper, you're probably a multi-billionaire at this point.

It depends on whom you believe.

There is some information that's not fully accurate, but yeah, we manage to keep a significant portion of the company with the founders and employees.

Employees own actually quite a lot.

When I heard about Grammarly, the reason why I wanted you to come on to the podcast and at HustleCon is because I think my reaction is the same reaction most people in business had, which is like, A, this is just a Chrome plugin, B, this is just spellcheck.

There's no way that either of those things are interesting.

And then I learned about it, and I was like, oh, this is way bigger than, it just looks like that.

It's way more than that.

Did most people, were most people dismissive of it just being a Chrome plugin?

Some people are dismissive quite a lot, and I wouldn't say dismissive, it's not like completely obvious nothing, but underestimate the impact and the importance of it.

And that's an interesting conversation, always very similar because they kind of think, oh,

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this is a good product, this is a cool product, but not for me because I know what I'm doing. And then they tried and it helps, it helps the material ways and especially when you measure results.

Because, you know, when you don't measure things and I'm just, you know, typing away, it saves you from an embarrassment or helps you phrase something more clearly.

Kind of, yeah, that's cool, but what's the impact of that?

Show me the money.

But when it's done on the business scale, and it's measured and it's kind of assessed, you can see like percentages, improvements in different metrics, productivity, satisfaction and so on.

And that ends up, that ends up.

We bought it at the hustle, so I had it for the whole company.

I don't remember what it cost, but I remember seeing the bill every month, hundreds of dollars a month and everyone loved it and I loved it, I still use it.

So like, I totally, I totally buy it, I totally, once I started using it, I was like, oh my god, I get it.

But one thing that I've always been fascinated with is, is just plugins as a business.

Particularly two types of plugins, WordPress plugins.

There's a bunch of guys that have like some substantially sized, substantial sized businesses selling WordPress plugins, you know, like \$25, \$50 million a year.

And then Chrome plugins, which do you, I don't know if you like describe yourself as a Chrome plugin as a business.

I don't think you are, but like, it's definitely like one of the main ways in which most people interact with you, right?

For now, yes.

We just recently switched over to our flagship product being operating system level integration. So it works similarly to Chrome plugin, except it integrates with all the apps, not just web apps.

So that's, that was a big switchover that happened in December.

So just about a month ago.

So that's, that expands the surface area for Grammarly.

Now it's in Microsoft PowerPoint and Oracle applications and wherever, wherever you want.

Did you watch your higher CEO, when did you do that?

All right, 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.

Thankfully, HubSpot's all in one CRM platform can serve as a single source of truth for managing your customer relationships across marketing, sales, service operations with multiple hubs and over a thousand integrations and easy to use interface, HubSpot lets you

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spend less time managing your software and more time connecting with your customers. Learn how HubSpot can help you grow your business at [HubSpot.com](https://www.hubspot.com).

That's kind of jumping topics, but yeah, we, we brought in a CEO, I think in 2011.

And one reason, one big reason for that was that both Alex, my co-founder and I, we have a philosophy that everybody should be doing, should be in their zone or genius doing what they like and what, what they're good at.

And nobody, no one of us was really experienced or, or even that passionate about scaling organizations.

And that's what we're kind of the biggest thing we're looking for from, from a CEO teaching us and, and doing that basically scaling the company.

Cause we realized that to do what we need to do, we need a lot of people.

We need a big company.

It's kind of a number of people and size is not a kind of a desired outcome in itself.

It is a necessity because the goals are so big that you can't do it with 20 people or 30.

What values did you have when you hired Brad?

Oh, I think 20 something.

Oh, wow.

Nothing.

I mean, it's small.

Small.

Yeah.

Yeah, we were fairly small.

We were, we were making good revenue and being profitable at the time already, but the company was still very small.

And that's, that's kind of a, that, that realization.

We need to, the opportunity is big and we need to scale.

That pushed us to look for kind of external expertise.

How did you, because at that point you, I guess you didn't raise money.

So you and your partner, like, oh, it was like your business, it was your company and like your money.

How did you, how did you not micromanage Brad?

Because I did the same thing and not micromanaging is tough because you're like, oh my God, if you make a mistake, you're going to lose money and that's like my money.

And so it's like really stressful to like let someone fail sometimes and learn.

Were you micromanaging or were you pretty emotionally healthy about it?

I like to think we were emotionally healthy.

Maybe Brad would disagree.

I don't know.

I wish I actually will ask him, but I think part of it was out of necessity.

There was just so much to do that if you're micromanaged, you get stuck.

You don't need to make progress.

So there was just no time or resources or energy to micromanage anybody.

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We had to divide and conquer to actually keep making progress because that's a lot of work. So just from the volume of things to do, everybody had to do their own thing.

So that happened naturally.

And part of it is a philosophy that again, Alex and I share that basically if you bring in smart people on board, like not listening to them or not letting them think independently is a waste.

There is no point in bringing in smart people on board.

So that made it easy to give freedom and give space to Brad and other leadership team members at Manchester.

What were your goals early on?

When you started the business for like, man, I think this can make \$10 million a year and provide a good lifestyle or was it like a multi-billion dollar thing?

What were your goals early on?

I think we decided that it could be a multi-billion dollar business during our conversations with Brad partially.

So kind of Alex and I, we hoped it could be.

But then once we started talking with Brad about valuation plans and all that, when he was thinking about joining, then it become pretty clear that, yes, there is a multi-billion dollar market out there.

Are we going to capture it or not to be determined at that point?

But there is definitely an opportunity.

So the size of the opportunity became clear fairly early, but past there, that took years to do.

What was the vision that made, or what did you see that made you feel that it could be a multi-billion dollar opportunity and what was the vision and were there any numbers that you saw early on that would said like, oh my gosh, there's something here?

Yeah.

So I think the breakthrough moment was when we saw that it is possible to help not just professional writers, people who write for a living every day, but also help casual writers or people who write as part of their job or part of their life, but not like a key part.

So writing is not their main product, they're no novelists or researchers who are published and so on.

So when we saw that it's possible to make a product that's useful for everybody else, then it clicked in the very simple formula.

If you look at amount of time we spend communicating and creating knowledge as a humanity, as all people in the world, it is a huge percentage of our time and it's increasing because we spend less time doing things with our hands, manufacturing is being automated, it's not like we were doing it manually anymore as much.

So if you take this time that we spend communicating and creating knowledge and make it even one percent more effective, the impact is in trillions, not even billions.

So can we do something that makes communication one percent more effective on average for everybody?

That doesn't sound impossible, that sounds like something's doable, that's doable.

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So I had that same insight, except I did it in such a horrible, worse way.

So basically I learned how to be a copywriter.

So I read books on copywriting and persuasive writing and my theory was like, oh my gosh, like with texting or online dating, I was single at the time in 21, so it was all about dating.

Oh man, if I were to learn how to write better in my messages to girls who I match with, like my life is going to be better.

And then I was like, wait a minute, if I learn how to write better, I could sell more stuff.

If I learn how to write better, I can make people feel emotions about like this cause that I want them.

I'm like, just writing better, like it changes, it makes life more practical, but also it makes you think better.

So like if you can, if you have an idea for something and you're forced to write it out, you'll see all the holes in idea and you'll, and you'll force yourself to like lay it out.

And so I was like, oh, I'll teach people how to write better.

And so I created a course on how to write better.

Of course, like obviously creating a software product, it was out of my league, but like that was clearly the better move to do.

But the same insight was like, everything that we do is via a text, whether it's a text message or an email or a website, and even if it's via like the spoken word, I have to write that anyway.

So like writing is like the most important thing that you can master.

I just wish I would have approached it in a software way, as opposed to just selling a \$300 course.

Yeah.

Software is more scalable.

That's true.

And actually what you said about writing, it also applies to speech.

We, when we do user research, we notice that people who use Grammarly repeatedly adopt patterns of communication, more effective patterns of communication translated to non-written communication as well.

So for example, if Grammarly keeps suggesting that you don't use kind of a wordy or vague or weak sentence structures, you stop or reduce use of them in speech as well.

So kind of good habits rub off and translate to other modes of communication.

Here's my opinion.

So have you ever heard of copy work?

No.

All right.

So in like the 1700s, 1800s, and up until like 1910, one of the ways in America that we would teach children how to write well, it's the same way that we would teach them how to play an instrument.

So if I wanted to teach you how to play the piano, I'm not going to say like, go ahead, like write a piano song.

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I would say, well, let's play Jingle Bells.
Let's learn how to play Happy Birthday.
Then after that, we can move to like some more pop songs that you really like.
And then you do that for like two years and you like see patterns and you like understand you just copy other people's music and in doing that, you see patterns.
And then eventually you're like, oh, I know the rules to the game now.
Now I can decide to follow them to break them, but I can make my own.
And it's the same thing with writing, but we don't do that.
And so what that means is I think one of the easiest ways to learn is you find great writing that you really like, and you just literally copy it by hand and in doing that, you like see the patterns.
And that's called copy work.
It's not a very popular way to learn how to write now.
But in my opinion, it's one of the most powerful.
I would say Grammarly in a sense is doing that because in real time you're learning, but it's far better than just saying like, go and write, like just like spend a lot of time writing your own stuff.
I think copying other people is far better.
Anyway, it's something I've been playing with.
I'm not a lot of people have heard of copy work.
I thought maybe you would have, but it's like not very well known.
No, I haven't heard of it, but I've seen it done in many, many fields.
Like at one point I was passionate about photography and same there.
You just basically try different, try to basically copy different photographs and recreate them.
And then this way you learn the language of that art.
So yeah, that applies to many, many areas.
How technical were you and your co-founder?
Were you technical enough to build the first handful of iterations?
So I was very technical.
So for example, the previous plagiarism detection company, I wrote the core algorithm and most of the code originally, most of the kind of back end code, not the front end.
But when we were working on Grammarly, I don't think I did any production code.
I coded some of the experiments, landing pages, payment, check out processes, like some stuff that you don't even need to code anymore today if you didn't want to.
Yeah, yeah, yeah.
So I coded some of that, but I didn't code like a real production grade stuff.
Mostly because I'm not a formerly a software engineer.
I'm kind of a self-trained coder, but kind of building a real complex software is not my thing.
Plus, I had to manage the business full-time.
So when we started out, I was responsible for finance, marketing, like pretty much like lots of things.
Basically, everybody has to wear a lot of hats in a small company.

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So the branding of the business occupied pretty much my whole time, so it was no time for technical work.

So you just hired, did you guys just self-fund it and hire a couple of people to help build the first version?

We hired quite a significant number of people.

We also had a technical co-founder on board, a Dima leader who helped build out the technical team.

So he was responsible for the technical side initially.

But yeah, because of our previous exit, we had some savings that we could put into Grammarly, some substantial savings we could put into Grammarly.

So basically, we were both founders and the first investors.

How much did you spend to make it work until it was a sellable product?

I don't remember.

Like a million or 10 million, 500,000, do you remember?

I think it was close to a million, but it was a product that worked only for very small audience, very small use case, and it was not real time.

So basically, what happened was you write a book, a chapter of a book because it couldn't check the whole book at once, or you write a research paper.

You submit it to the initial, like the old Grammarly, and then you go make a cup of coffee, and then you drink the cup of coffee, and then you wait a little bit more, and then it spits out the result.

And the result was probably half of it was real issues, and half of it was false positives.

But at the time, the audience, the target market was fine with that because if you spent like two months writing a book, like what's extra half an hour to review all the potential issues, right, even if they're not real.

But that wouldn't fly with business writers, for example.

If you're writing a business email that you need to send in 20 seconds, you're not going to deal with false positives.

And did that version get you to profitability?

Yeah.

Oh, shit.

What did you charge for it, \$100 a year?

We charged, I think, \$90 a year or something like that, yeah, or \$100, I think \$95 a year.

How did the people hear about it, the first users?

So that was interesting because we launched two parallel streams, one to consumers and one to businesses, educational institutions, publishers, basic companies, consulting companies.

And the consumer channel took off, like it grew exponentially from basically week one.

And enterprise or B2B, it took a longer to build.

So once we kind of pushed both of them in parallel for about half a year, we saw that well, kind of makes sense to focus on consumer for now because it's just growing like wildfire. But B2B requires much more pushing, much more hiring, more people intensive because you need sales team and all that.

So we kind of decided to slow it a little bit and focus on consumer for the first few

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years.

And did it to paid marketing or organic?

We did everything.

We tried all the channels available to us and obviously different channels have different benefits.

At the time, social was also easier to get free promotion from.

Right now, obviously, kind of Facebook and others just want to capture all the value they create.

But back then, it was easier to get stuff viral and social and just get free promotion from that.

SEO was easier as well.

So many channels were quite easier to do.

But we relied on paid early on quite a bit because it's a very quick feedback.

You design an ad, you send it, or kind of put it in the system, and then you get back results within hours.

And it tells you if the message resonates, if there is a market for that, if you're finding that market correctly, you know that within like hours.

It's in more traditional world, it's a week's of market.

And hundreds of thousands of dollars.

Yeah.

So that was kind of why we were so bullish on paid from early on, even though it costs a lot of money.

What companies, are you guys trying to buy companies?

Not specifically.

I mean, we're open to that, but we're not like hunting to buy companies.

Is there a problem that you need to be solved?

And then you saw that this other company was solving that problem that you'd buy it.

So like, let me give you an example.

The founder of Jet, you know, Jet.com, they sold the Walmart for some billions of dollars.

And he's like, man, if Walmart, if we could figure out a way how to reduce returns by helping people pick the right sizes, we would buy that company for a lot of money.

Is there anything inside of Grammarly where like, man, we haven't figured out blank yet, but if someone did figure out blank, that's a cool company we would buy.

That's a cool problem solved that we would buy.

Yeah, there are many things like things around doing more on device, like doing more and more processing on device.

I think that that would be very interesting to us because it enables better user experience, lower lag, potentially higher performance.

It also helps alleviate some potential privacy concerns.

So kind of a no-brainer to do more stuff on device.

And it's cheaper for us to process.

Sorry.

What does that mean?

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Instead of you paying for all this cloud space for everything for the...

Yeah, calculating the suggestions on device.

Basically, whenever we say, oh, this needs to be shorter or rephrase it, making that determination on your phone or on your laptop rather than sending it to cloud and having our servers crunch numbers.

So that has a number of benefits for both us and users.

Actually, I don't know what those costs are.

So how much does it cost to...

What percentage of your revenue do you spend on?

Or maybe how does the payroll cost compare to your hosting costs?

I would say it's comparable.

Hosting costs are...

Even though we don't host much of the data, like we're not draw box where we store files, but the processing, the processing is quite expensive, especially if you consider that we have tens of millions of free users who are not paying us anything.

And we don't monetize them in any way at all, because we don't sell user data.

We don't show ads.

We don't do any of that.

So basically, all the free users are not monetized until they subscribe.

So that makes us be conscious of processing costs.

Especially for regions where not many people can upgrade to premium, like developing countries.

How many employees do you have?

I don't recall exactly, but I would say somewhere around 800.

Damn.

So then you're paying a shit ton for that hosting.

Yeah.

I would say it could be less than payroll.

I don't remember exactly, but yeah, it is a significant amount.

I mean, supporting that many users and providing a reliable service, it does much better.

How do you pay?

It's mostly Amazon.

Isn't that crazy, man?

Like it just runs the internet.

It's crazy.

Well, yeah, we evaluate from time to time, bring in some things in-house and actually some things we do have in-house, not necessarily like the hosting infrastructure, but like some training, model training and all that stuff we do in-house.

But so we look into that, so it's not like we're just Amazon and forget it.

But it is an effective way to scale business.

It is an effective way to run it.

It's just like crazy that it's crazy.

It always freaks me out a little bit that like we use Cloudflare and I remember one time Cloudflare went out and like our website was dead and so was like a quarter of the

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internet.

Yeah.

Yeah.

So it is, this concentration, it is kind of scary, yeah.

It freaks me out a little bit.

Yeah.

It has its benefits, but it is, yeah, a lot of places have a single point of failure for significant portions of our infrastructure.

Are you, and we'll wrap up here in a second, but I asked you about Hemingway earlier.

Do you view them as competitors at all?

Not really.

No.

They do something that's similar and something that's basically part of what we do and a number of people use both products simultaneously.

So we don't view them as a competitor because they don't take business from us.

So yeah.

So it's not like.

Who do you view as a competitor?

Who do we use as a competitor?

Well, the biggest one is complacency.

It's people not realizing that they can benefit from this.

I think that that's the biggest thing that by far bigger than any, any other competitor.

But other than that, once you get to certain size, everybody becomes a potential competitor.

Because, you know, when you look at big tech companies, they all compete in some ways and all do some things that are similar or the same.

So that's, that's kind of the mindset that basically at any point, anybody can become a competitor.

But I've never seen any like upstarts or any small companies try to compete with you guys.

Is there, is there many?

There are some, but most are focusing on either niche, like primarily for a specific market.

And I think that's, that's a good way to start.

And obviously we're watching them and seeing what they're doing right, what they're doing wrong and so on.

There's similar products, Microsoft, I think has a similar product, but again, it only does part of what we do.

So it doesn't take away much business from us, so if any, so, so yes, and I wouldn't,

I wouldn't say that there are any kind of direct competitors at this point.

And I'm not too worried about competition, frankly, because it's just such a new field that most of the market is just untouched by anybody.

Paul, thanks for coming on.

It means a lot.

Great.

Thank you.

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Thank you so much for having me.

I feel like I can rule the world.

I know I could be what I want to put my all in it like no days off on a road.

Let's travel, never looking back.