Adam Smith of Big Sky Partners

[00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:24] Hello, this is Hall Martin with Investor Day, we're here with Adam Smith, founder and CEO of Big Sky Partners. Big Sky collaborates with companies and their brands to develop, grow and maximize their potential through expert advice and extensive networks. Big Sky helps clients build brands and businesses that are respected, unique, global, profitable, and leave a legacy in today's crowded marketplace. Big Sky assist clients through brand positioning, executive and board resources, product distribution opportunities, corporate development, strategic partnerships and capital and M&A fares. Selective in its collaboration with Big Sky takes AmeriCredit approach to client relationships utilizing traditional client advisor engagements as well as revenue sharing and equity upside arrangements. Adam, thank you for joining us.

[00:01:05] Thank you. It's a pleasure to continue to have enjoyed your podcast series and it's great to be a guest with you. Great.

[00:01:10] And so what was your background before you got involved with early stage companies?

[00:01:14] Well, again, in early stage around 2010, actually, technology was a little less advanced than we were in a digital marketplace. I was an investor. And so the last 10 years we've been growing that business as both an investment business and advisory business. So nice to have both sides of the coin that we're involved in.

[00:01:34] But now we began what was a opportunistic investing business into more of a governance and founder advisory company. Our focus is mostly strategic planning and corporate governance support and putting deals together for the founders. And Big Sky Partners and then also leverage just some other businesses that we own as well that are within the broader private equity and venture capital community that was in private equity before for about 15 years doing middle market buyouts and recaps some billionaire funds. And then before then, I started on Wall Street.

[00:02:10] Right.

[00:02:11] So what excites you right now, particularly interested in the the evolution of sustainability and impact investing in the early to mid stage venture companies? We have a very strong expertise in consumer products. So the ancillary areas that are exciting take into account a product or service which is sustainable can be at the core of it, can be something that's upcycling, recycling, something that's unique in terms of impact, whether it has specific yes or protocol or whether it's just creating a fantastic product that's good for the world. We don't take a huge amount of risk in the sea level like others do. But as the companies get a bit more scale, more sophisticated, more capital, then we can really make a difference.

[00:03:01] I'd say more in the series and series, seriously. So it can be wellness, exercise, fitness, mental illness, sustainable product upcycling, even art, design, collecting, and also some some nonprofits that are also a for profit model.

[00:03:17] I was curious, what would your advice for people investing in startups? What do you tell them to do before they write that first check?

[00:03:24] Well, you've heard this story probably thousands of times. I think there are different opinions, but the general themes relate to doing diligence and evaluating both the horse and the jockey to understand who you're backing. As the founder of Founders, I personally like companies that have more than one founder.

[00:03:44] But if there needs to be additional resources, then it is nice to see the early stage companies have several founders or board of directors or advisory boards or some sort of adults in the room that support the the hectic and stressful lifestyle that they found her needs to go through for several years.

[00:04:05] Also, the size of the market and is it scalable, is there enough room left? What is the market structure that the company is seeking to acquire within a reasonable time, three to five years?

[00:04:18] I also like to understand how many rounds, how much capital, what's the how realistic are the founders, how much capital and much time are they looking to build a company and how that relates to the business model. So it's important to have for investors to anywhere from Angel or to institutional venture capital. I think to understand, is the business model going to be sustainable in terms of cash flow and when is that going to occur? And therefore, I like to see that the founders are realistic about their their timing, their needs for additional capital. I think also understand your competition. Looking at the SWOT analysis, supporters analysis is kind of the minimum, but really going deeper into these direct competitors and understanding metrics on those companies, not just their names, not just to the existing relevant product. Really, it's nice to have more data around those competitors from a size standpoint, the metrics of those companies, because ultimately you're going to be either creating a market share market, creating a new a new demand, or you can be taking share from those competitors.

[00:05:27] So for the startups, what do you tell them to do before they go out to raise funding out of some funding, before you raise funding?

[00:05:34] Good point. I think if you flip it around and of course, the founders need to have tons of passion, that passion should be directed with a sense of realism and also with patience, which can also be augmented if there is money in the bank. I said somewhat jokingly that I've seen way too many compelling or passionate founders that really should be supported, should have the time, the resources to support them. But whether it's extra resources like ours or lawyers or trademarks, occasionally patents, hiring people, creating a spec and BP, it's not even a beta site or some form of wireframe.

[00:06:17] I don't often see startups that don't take at least twenty five thousand dollars to get to the finish line for actual funding. And even even better than that would be that the founder would already have some capital, their own friends and family around before they hit the road. I think also having a a nice presentation across all mediums helps, so not just a teaser, not just to just a website splash page or some Instagram handle, but really trying to have everything lined up and consistent around the brand name, the social media, intellectual property, not to mention trademarks that should be either prepared and fully dozens, if not started already, if not completed prior to hitting institutional capital. Of course I've come back. I come for more institutional investing. So if you're coming in as an angel, sometimes you can take more risk and you're going to be a bit more lenient on where the company stands. I think final time would be there is such an explosion of journalism and creativity, innovation, technological advancement and empowerment tools that the more that this post e commerce digital revolution continues, the pace will speed up and there's entry will be changing. So, you know, having just an idea to run with and get investors capital is is increasingly tricky and sufficient, I think great.

[00:07:48] It's good advice. So let's talk about the state of investing. How do you see the industry evolving and where's he going?

[00:07:54] Well, fortunately, it's here to stay. America and the world needs risk capital other than emergency loans from the government or family, capital or institutional capital. It's essential that the venture capital ecosystem is as vibrant and supported both from policy and tax, but also philosophically and capitalized. So I don't see that changing, but I do see that technology and digital tools will start to explode, I think, and both cannibalised and also complement the traditional venture capital funds source of funds into a bit more of a digital landscape. So the development of marketplaces way back to looking at Kiva, looking at funders club grew to market share net capital, of course, Angel List and the syndication model. There's tens and tens of online incubators, accelerators, marketplaces. I personally find the sum of these larger platforms to be very inspiring and very important, including Kickstarter, Indiegogo, oxer market go fund me. These are really powerful tools as well as Angels'. So I think the digital access and platform will become more and more vital, which raises the question of how they use their artificial intelligence and what type of of diligence is incumbent upon the investor versus the platform itself.

[00:09:23] And so what's the biggest change you think we'll see in the next five years?

[00:09:26] Well, let's say let's say not the same non-traditional venture capital funding now in terms of using online platforms, particularly since the Jobs Act has been created and both improved as well as the acquired investor definitions also improved recently. Again, so those are Craigmore agency risk, more risk for the broader investor community. But I think it's also a democratic model and people need to take responsibility for their own actions. They can't rely upon the government safety net to to provide both the risk protection, but also the empowerment. At the same time, those those don't. Necessarily coexist well together. So I think the online platforms will take 20 percent, maybe 30 percent of total total angel and early stage venture capital funding. Let's say if you count that series, eh, I could see that being 20, 30 percent of total funding the next couple of years. And Nalgae could be, for example, if you look at the the IPO market, which is completely down the road from the venture capital investment, which is pretty much the the ultimate goal really is to monetize the venture capital investment into an exit, not particularly an IPO would be that analogy could be relevant to looking at the stock market right now.

[00:10:45] So SPAC market was had its fits and starts. It's been around a while, but there was a strong period 10 years ago when when the markets were sort of the first credit recession, the Great Recession. And then it kind of. Went quiet as the markets became more normalized. Now, the markets are not normal and facts have been embraced in many ways. And I read a stat showing that the IPO's have been over 50 percent, 60, 70 percent success this year. It's incredible. So now you could look at that reality, which is a very risky IPO of a concept funded as a cooption, essentially. Look at that model as far as what venture capital can do online with investors are going to take much more risk than this back. They could be willing to go more self empowered or investing in a curated model. I think the Angelus syndication is really the first mover. And is it shown that people are willing to follow some intelligent herd and make decisions on their own without having to lock up into funds? So that does create a concern for venture capital funds, I think.

[00:12:01] Good point. So what's your investment thesis? What do you look for in a startup?

[00:12:06] Some of the things you talked about before look for significant passion combined with with realism, trying to find founders that are determined, focused clients or partners or or colleagues or collaborations. It depends on the role. But we want to make sure we understand them. We can empathize with them, get along with them, support them for months at a time or years, and also that they have a mind towards creating appropriate governance and leadership to expand leadership team in terms of different people, different gender, different diversity, different skills, creating a board of directors and then, of course, running that board of directors. Well, we focus on the governance through a different company. As you know, Cold Wisdom Board was Baucau is a governance digital leadership community really focused on excellence for those boards that can include venture capital and sound early stage family office investments. So there is a growing chasm of governance skills and knowledge and willingness resources. So we are increasingly focused on early stage family office and super outdoor holdings, which allows the board to make sure that they can get consulting services, they can get connections with experts, they can get content and learn. They can network to make their governance resources as strong as possible and in turn, not only protecting themselves, but also empowering their role as a fiduciary and making the company stronger.

[00:13:44] A particular startup you can call out that fits that thesis.

[00:13:47] We see about five hundred a year, so I won't pick one right now. But I would say I can give you an example of one that we invested in that I would do again, for example, in that good for you unique branded space, in this case in accessories, although I'd say now we're more focused on wellness and consumer products for your health and your beauty, food, beverage, mental illness, content. But accessories and fashion and clothing, they can they can't have a cause. They can be of course, they can be sustainable. And they can also make people happy. Of course, through. They are traditional world of shopping, so coyo a oh I oh, Tako is a five year old affordable luxury footwear brand here in New York. We were the seed partners initially in a series a one point three million. It was just a concept with. Couple of Skewes. Made out of Italy and using a dropship model directly to the consumer. So essentially a virtual prop shop, DTC of the shoes, both for men and women, and they have proceeded to build a strong cause in there. And the brand, they have raised four rounds, over a million dollars. I assume they're pushing over 20 fast evaluation and they really care about their people, their product, their returns. They're starting to move a bit into the Toms shoes model of sustainability and supporting social causes, but also a bit of the let's say, the first ads or the Reback model of vintage, as well as you see other brands, Patagonia, of course, I think your face it's a very interesting development to see brands take the the effort to incorporate social good into their product, which does not necessarily create more business, but it creates a stronger brand in connection with customer.

[00:15:56] So you see a lot of startups out there. What do you think their main challenges in launching their company these days?

[00:16:02] Unfortunately, capital is No. One seems 60, 70 percent of startups fail because of capital, followed closely by the scalability and actionability of the actual product and service itself. I think that there will continue to be a meaningful imbalance between the quantity of startups and the quantity of capital. So there will be continued to be a Darwinian landscape for many years to come. But that's that's the way life is and it results in the strong role in surviving. That doesn't mean it's necessarily the best businesses, but I think those remain the challenges. Also, like I said, having strong governance, having adults in the room, having opinions around the table, having a diversity of thought is important. And those are also challenges. The challenge, I think other challenges, the prototypical need to run fast and hard and to get things done quickly, both because of scarcity of capital, but also the ego and energy and drive of everybody at the table and the concern that there is a constant ecosystem of competitive activities going on. So that speed is, of course, motivating estate. But it's also a concern for. Founders, I feel like they have to make decisions quickly, and I think that can be risky.

[00:17:28] And on the other side of the table, what do you see investors struggling with these days?

[00:17:33] Same thing. Too much deal flow to too little time, too many deals, too many ideas. A lot of ideas aren't worthy. They are selfishly created. They don't have a core purpose. They're not going to work. And that's just reality because there isn't a way for many people that especially those that are less experienced or just maniacal about their concept is very difficult for a lot of startups to get outside input to change the course of their direction. They won't know. Or willing to change the course of direction until it is necessary, which is typically when we have to pivot or they run out of money or they have Senator Panaritis concerns. So I think the. I think the same that exists and will continue to be the primary challenge in venture capital, right.

[00:18:29] We see a lot of deal flow out there with five hundred a year with sectors or applications. Do you think a good opportunity for investors to pursue today?

[00:18:38] Yeah, I know you see probably thousands of angel and seed situations that need mentorship and connecting me to access the platform. But I'm glad to see there are people like you creating empowerment and the democratization of access without a tricky or overly complex investment banking model that does empower a lot more founders. And there should be more of that as well. I like the series A, Series B level myself and also the secondary opportunities at that stage in the last few minutes that we have here, what else should we cover that we have? I think there's been a great talk. I would encourage founders to balance their their desires and passions with seeking continuous, diversified advice from others in their circle and outside the circle to push yourself past your comfort zone, not just in the company itself, but also in the input and resources around you that can include career development advisors like us that can be augmenting your lawyers. It can mean creating an advisory board. It can also mean having a co-founder for two or three that you weren't anticipating. It can also be a joint venture if you want to accelerate your timing to create a B2B partnership. All those things are are opportunities for founders.

[00:20:03] Right. But how best for listeners to get back in touch with you. Thank you.

[00:20:07] Linkedin is the best time in our Adam Smith and LinkedIn that we own four different companies, but all of them are listed there. And all of our websites have emails and phone numbers as well. Like most venture capital funds, you can actually find my email. Great.

[00:20:22] We'll put those in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

[00:20:27] Thank you. Nice to talk to you today. You as well. Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect, Doug.

[00:20:47] Alti Martin is the director of Investor Connect, which is a viable one C3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinions of investors. Connect. This podcast is for informational purposes only. Should not be relied upon for the basis of investment decisions.