

David J Neff of Neon Syndicate

Speaker1: [00:00:04.77] 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. Hello, this is Hall Martin with Investor Connect here with David Neff of Neon Syndicate. Neon Syndicate, is a privately held real estate and investment company run by Shelly and David Neff here in Austin, Texas, with investments in Veritas, Beauty, Peace, Love and Betty, as well as real estate holdings. David, thank you for joining us.

Speaker2: [00:00:40.44] Thank you for having me. Paul, I appreciate it.

Speaker1: [00:00:42.67] Good. So tell us about your background before investing in early stage companies. What did you do for this?

Speaker2: [00:00:48.54] Yeah, great question. So I have about 19 years in digital, almost 20. And all that time I started at the American Cancer Society. I was at the American Cancer Society for about nine years, right out of college at UT, doing a lot of early webmaster type activities and really early e-commerce. And so while I was at the American Cancer Society, we really figured out how to do e-commerce. Right. Actually taking orders from a Lotus Notes powered website. For those of you who remember that, running it down into a warehouse, giving the order to someone and having them ship off things. And then over time, we got to partner with some great companies here in town. One in particular called Convoke. If folks remember that and did a lot of early work with the folks who can be able to figure out, well, great, we do physical events, how do you take those and put those online? How do you put a gala event online? How do you do Relay for Life, which is a big kind of event that the American Cancer Society is well known for. How do we put that online? How do we sell tickets? How do people make reservations? So we always had a super interesting kind of digital and e-commerce background and then in the later years really developed my digital marketing skills. And I would say the two things that I think I've always concentrated on, whether e-commerce or kind of digital marketing and obviously a lot of social media. And I got to help start the social media program there. And so that's very large institutional non-profit. After that, I left and I went to work for myself and I

ran my own consulting firm for two years. And that got me involved in the Austin startup scene two thousand eight two thousand nine.

Speaker2: [00:02:24.72] And that led me to start my own technology startup called Help Attack. So I was a co-founder there, along with another great Austinite named Cerebella and a former Austin Austinite named Aaron Foss. And we developed an online platform that allowed people to use their social media to donate to nonprofits. And so very interesting, very technically challenging, which I think was important for me with technology skills, but also got to work with a great CTO and a great CEO. And we had a one round of funding and really fully realized that business is hard, hard to sell to nonprofits. It's hard to sell fast software on top of selling software to nonprofit at the early days of social media. Right. Twitter Gopala write things that don't even exist anymore, although I heard Google is coming back. So for us it was very interesting and very hard. Know how a lot of legal restrictions. Right. You can think about. Gosh, Texas has different donation laws than Arkansas and Oklahoma and California. And trying to figure out this business on a state by state basis was very hard. And I think we learned a lot. We're able to sell that business not for buy a boat and retire type of money, but we're able to exit that. And then ever since then, I've been back in technology and just lately started doing more investing and thinking about other spaces that are actually not technology, because my day job is still doing a lot of e-commerce and a lot of that type of work. So I really was looking at things like CPG or real estate or non-technical things to invest in and buys around.

Speaker1: [00:04:05.10] Great. Well, so what excites you right now?

Speaker2: [00:04:07.08] Yeah, I'm super excited just about in general the CPG scene, especially in Austin. I think there's a lot of interesting stuff going on out there. There's a lot of great accelerators outside of the folks at Capital Factory and others, naturally, Austin and a lot of great small companies. Right? Rhythm, super foods. Obviously, the stuff that Clayton Christopher is doing here in town is super interesting. The stuff that Springdale Ventures is doing around CPG is super interesting. And so for us, since my wife is in the salon business, we've often thought about hair care, conditioner, things like that. And so those are the kind of companies that I'm advising for and then also the types of companies that we're investing in. And it's nice how I, I deal with so much commerce and marketing technology during the day. That's kind of not what we want to invest in and think about it. And I think.

Speaker1: [00:05:01.35] All right, well, let's talk about CPG. What's your advice for those who want to invest in the CPG company? What do you tell them to do before they write that first check?

Speaker2: [00:05:10.17] Yeah, it's very different. Obviously, any investor would be doing their own homework, looking at the P&L, all the normal stuff you would put stacks interviewing people. But I think for me, what I'm super interested. The CPG space is maybe the innerworkings, right, there's so many moving parts that are supply chains you're having to think about, there's chemicals, there's ingredients or shelf life. So for me, no one finds somebody who's already in that industry and shadow them, become their best friends and understand it. And then on the other side of that, something that I do just based on my consulting background is I look at companies and think a lot about people, process, technology, strategy and culture. And of those five or six things, how are they performing? What's kind of the maturity of a three person company, a five person company, an eight per cent company as a growth rate? And I know you're familiar with this. Probably your listeners are familiar with this, but that idea of how organizations form from the 1960s of very much forming Stormin Norman. Right. And how you have groups of people who have a good idea. They come together, they think about it, they launch something, they grow. And when you peel that back and you peel that investor deck back, you peel funding back, actually sitting down and understanding people, process, technology, culture. That's really how we make our investments. And, you know, basically getting into the guts of the organization, which not every startup person probably likes. But the folks we do because we're adding value tend to actually like us getting to that level of detail.

Speaker1: [00:06:49.36] Then on the other side of that table, what do you tell KPG startup to do before they go out to raise funding?

Speaker2: [00:06:54.63] Yeah, a great question. I, I think what I want to see from a company and I think what a lot of us want to say is you have a product. I think a lot of investors, especially hands on folks like myself and my wife. I want to know that's a good product. Right? I want to taste it. If it's sunflower seeds, I want to actually wash my hair with it. If it's a men's facial wash, which is one of the companies that we're advising right now, I want to see it. How does it work? You're telling me to use this five minutes in the morning, five minutes at night. Well, let's see it.

Let's let's use it. Let's actually experience the product. So I think maybe versus some of the software companies or or others actually physically having a product and using it. Right. You don't need to be in target. You don't need to be the number one in your category on Amazon, especially for these early stage folks. But like, do you have the entrepreneur wherewithal? And the people process technology and culture to actually build a physical product and bring that physical product so people can actually use it? And that's such a good indicator, because I think there's a lot of people in Texas and elsewhere that talk the talk, but then no product ever actually appears. Right. And there's a lot of entrepreneurs on top of all the great entrepreneurs that we know.

Speaker1: [00:08:10.92] Great. Well, that's good advice. So let's talk about, say, the state of KPG investing. How do you see the industry evolving from here?

Speaker2: [00:08:17.91] I think it's interesting. I think Austin in particular has become this little hotbed. I think obviously that slowed down with covid-19. But I think what I'm interested in in Austin is just seeing it mature over time. I think of Clark Nolan and his cold brew that he's gone and it kind of created golden ratio, I think, of the rhythm superfoods folks as being way ahead of where Clark is. Right. In terms of maturity. And then you have Teto right and Titos vodka, you have Deepti vodka, you have these people. So I think the beauty and the interesting thing for people to pay attention to and Austin is this whole range. Right. And what's naturally Austin and doing what Springdale Partners doing. Hey, let's talk to Mark Nathan, Mark Nathan, so plugged in to CPG and a lot of the stuff going on in CPG. So I think there's no way any of us can keep track of all of it. So you have to have these, like, pools you dive into, right? You dive into the pool, a CPG accelerator, and maybe you're an advisor there for a while and you try and understand the scene and then maybe you get out of that pool and you dive into another pool. And this pool is one on one being an adviser to an up and coming CPG brand like the golden ratio or people like that. Right. Get out of that pool and then the next pool maybe you dive in. And this is just how we did it. It's like, well, great, I'm actually willing to invest. Right? I'm looking to put money. I'm looking to put capital and one on one personal time into something. So for us, it's been like diving into those different pools because it's impossible. It's impossible to keep track of everything that's going on. And also when it comes to CPG, much less taxes, much less the United States or anywhere else.

Speaker1: [00:10:01.20] Absolutely. Well, in that space, CPG, what you think is the biggest change we're going to see in the next few years?

Speaker2: [00:10:07.74] Yeah, that's a good question. I, I think supply chain is going to be super interesting. I think people are like falling asleep the minute I say supply chain and they're listening to this. Right. It's not the most exciting part of the business, but to. Me and my day job is I work at Accenture, and so I work with a lot of supply chain folks, I work with a lot of retail folks who think about that. And so I do think this shrinking of the supply chain, being able to get ingredients, bottles, manufacturing everything faster, cheaper, less expensive. But then I think the added pressure is that, you know, it's not nineteen ninety five, it's twenty twenty one. So where did you get that. How recyclable is it, does it biodegrade over the next five years and then people actually putting that on their bottles. And you know how it's not corporate social responsibility. Corporate social responsibility is like you getting out and helping or you're donating to causes. Are you supporting things you believe in the bare minimum? It is how you're making your product in the supply chain. Right. You can't file that away under corporate social responsibility. That has to be inherent, built in part of your DNA and more and more people listening to podcasts and folks in the general public care about where did this thing come from, how did it get here and what's going to happen to it after I chuck it into the trash can or I recycle it. So to me, I think that's going to be a big, big influence. And you can have the best packaging and the craziest colors, I think, are the folks that drunken elephant and the amazing colors and the amazing things they're doing that look like it's like a nineteen eighties video game. Right. But people will buy that. But people still want to know. Well, great, how did this get made, where did it come from and what's going to happen to it when I toss it in that camp.

Speaker1: [00:11:54.79] Very good. So let's talk about your investment thesis for investing in startups. What exactly is it and what do you look for?

Speaker2: [00:12:01.63] Yeah, I think it goes back and burritos. Beauty was one that a friend of ours started the website only by Nina Fitzgerald, and it's a great conditioner and shampoo and has limited ingredients, was really thoughtfully against that kind of supply chain where things come from very thoughtful on the ingredients, the lack of the chemicals involved and the safety of it. Right. And she thought a lot about could cancer patients use this? And so what I love is

that the sustainment of her brand and how it was made, how it's being used. But then what we did was we sit down and like I said earlier, we're like, great, who are the people involved? What's the process you're actually using to make this? Who's the Copac or how are you thinking about a chemist? Is this scented or unscented? Like what's the process to make this and then the technology? Is this on Shopify? Is this a WordPress website? Is this thing going to break the minute you have a Valentine's Day sale or are you going to crush it at the holidays when everybody's ordering this and then the culture? Right. It's a small company, so we don't need to worry about culture. But I feel as an advisor, I need to openly and actively at least understand how those founders are build the business and how culture is like a living, breathing animal. It's like walking through the hallways of any business. Right. And I think we've all seen in the past couple of years that can be really toxic and bad or it can be great and people are happy to go to work. And so that culture part of it, I think it's overlooked by a lot of investors. And I know that's something I love to dive into and understand.

Speaker1: [00:13:37.33] Right. What do you have one or two startups you've funded that you that fit your thesis?

Speaker2: [00:13:42.61] Yeah. You know, Veritas Beauty only by Nina Fitzgerald. I think that's one where I just every single part of the business hit. There's another that's in stealth mode. I'm part of Ecstasy Labs out of New York, which does a lot of retail acceleration at retail investment. And there's a mindspace wash CPG brand that's coming out of there. And I've met the founder. I've spent a ton of time with him on one on ones over the past couple of months. And that was another one where I could just tell track records. Great people are great processes. Their technology makes a lot of sense. And then the culture I could tell as he starts to hire people and bring on people, it's going to be a great culture. So those are two kind of right off the bat that I really like. And I think we're actively out there starting our own line of shampoo and conditioner is called Peace, Love Bedding, and obviously I'm at the heart of that. So I, I totally believe in it. And we're putting our personal money into it and our personality behind it. So those are kind of three that I think about right now. Great.

Speaker1: [00:14:45.28] So let's talk about the challenges in the CPGs space. If we were to pick one, what's the challenge you see startups facing when they launch their KPG business?

Speaker2: [00:14:53.92] Oh, just a competition is insane. I mean, you know, there's I can't think of something and maybe people can play this in the comments or they can tweet me. I'm at DVM. But if you came up with a brand new off the top of your head consumer packaged good product today, somebody out there is already doing it right. It's hard for me to think of something new that someone has not already done, that you won't be going into a category where there are hundreds of competitors, if not dozens of competitors, right, for us, shampoos, conditioners, we could sit here and rattle off, I don't know, maybe four hundred, maybe that's a high number. But, you know, and then guess what? Amazon is making their own version. Wal-Mart has a generic Kirkland's as a generic. Right. Like you just face kind of unlimited competition. I think the good part of that is obviously it's a popular category. People are always going to be using shampoo and conditioners, things like that, or deodorant or razors or any of those kind of classic HomeGoods right when it comes to consumer packaged goods. But the competition is just brutal.

Speaker2: [00:16:05.13] Right. And I think all what I tell people is like, where are you concentrating? Right. Are we trying to be number one on the buyback, the buy box on Amazon? Are we trying to be a hot D to C start up and get a lot of funding and spend a lot on advertising and worry about our our cost of goods acquired and our advertising spend ratio, all of that stuff? Or are we trying to get into Whole Foods, get into Target, you know, sell it at People's Pharmacy here in Austin, Texas. And really, those are all levels of growth. How are you going to have a nice small business and sell thousands of your products at people's pharmacy, get into some whole foods, maybe you get into Target, maybe you have a limited process on Amazon or you're trying to scale and do all of that. Plus sell direct, plus sell to salons and Redken buys you one day or Bumble and Bumble buys you one day because you're the cool new startup. So again, that's like how do these folks want to scale their businesses and what does that want to look like?

Speaker1: [00:17:10.59] And then on the other side was the challenge the investor faces in funding KPG startups.

Speaker2: [00:17:16.05] Yeah, I mean, you can pick some dogs, but there's plenty of folks, I think that you could make the bet on cricket powder and be like, I really think cricket powder is going to replace protein in the year or 20, 40. And you're sitting there waiting and waiting and

waiting and waiting. And somebody else has been like, you know what this is called the impossible burger. And it's plant based and it's amazing. And people in Austin, Texas, love the impossible burger, but we're still kind of iffy about cricket powder as a source of proteins or a cricket taco, you know, at a food truck somewhere. Right. So I think, again, it's a hard, brutal space just because the competition is there. Right. And you can easily, as an investor, put your money in the wrong thing. That's why to me, it can't just be a pitch dark. You can't just be these people have a good background in the space it needs for me to have them open up themselves a little bit and look at that. People process technology, culture, strategy.

Speaker1: [00:18:20.35] Right. Well, you see a lot of sectors and applications in the CPG space. If you had to pick one or two that you'd think are really good opportunities to pursue today, what would you put at the top of that list?

Speaker2: [00:18:30.09] Yeah, for me and I hadn't really thought about it until I met this particular startup that I was helping mentor out of Sarsae Labs. Men's Skincare. Men's skincare is huge in South Korea, Japan, a lot of Asian markets. I think it's slowly coming over to America. Right. And there's plenty of money to be made in those other markets and there's plenty of money to be made. Baby and men's skincare in the United States. Right. And we see that because Old Spice. Right, there's like these very targeted men's brands that have like funny advertising or shocking advertising. There's lots of interesting powders and creams and other stuff for men where when I was growing up, it was probably like Gillette, the best a man can get. Right. Shave your face, maybe slap on some aftershave. And that's taking care of how a man looks. And I think nowadays we're seeing an influx of all these men's beauty brands to just help men take care of their looks. And maybe that's millennial driven. Maybe that's generation X, maybe that's generation Z. But I think the big folks, you know, Procter and Gamble, are paying attention to it. And so I think the folks who are doing something interesting in that space now will get bought by the Procter's and Gambles or those big, big companies over time. And I think that's super interesting. And then the the other one I, I think for me is just probably alcohol. I think alcohol is it's always going to be there. It's a super crowded space. Every celebrity has a tequila, every celebrity has a vodka. But I think Austin's shown that like local people who are making something interesting in Dripping Springs, vodka, Cheetos, Deep Eddie, people can actually start to do interesting craft. Things out of that right, and they don't necessarily need to sell to Bacardi, they don't necessarily need to sell to Anheuser-Busch, but that's always an

option. So I feel alcohol super interesting to me, although we haven't invested in anything. And then when it comes to beauty, that men's beauty kind of subbrand is super interesting right now. Cool.

Speaker1: [00:20:41.69] Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:20:44.81] Yeah, you know, a neon syndic is the name of our LLC. We're we're not a family office by any means. We don't have those resources. But I think it's really interesting to me because when you get into this, you're like, am I an angel investor or am I joining a syndicate? Am I an associate partner at a venture capital firm so I can get deal flow? And my wife and I have always been entrepreneurs, always been very type A go getters. And so we were like, that's all super interesting. But like, we know people who are doing interesting things. So what do we start, you know, what's the vehicle to actually do this? And, you know, we're bi we're building a salon business. And so how do we fund those real estate? How do you own your own space in Austin, Texas? And how do you buy your own space for your business in Austin, Texas? And so in the again, the stormy norming forming or sorry for storming north. I mean, we are still at the very infancy of that, right? We're like we have this thing called neon syndicate.

Speaker2: [00:21:47.60] We've made some investments. We've done some real estate stuff. How do we take it and where do we grow? I think it's super interesting. And, you know, the beauty of Austin is that everybody's happy to talk about us. Right. I've gotten meetings with venture capital folks out of the capital to understand how they work. I've gone to meetings with folks at the guys or group to understand how they do real estate investing. And I've talked to people who run family offices for folks who used to be at Austin Ventures and other places. So it's like I've been able to at least get the meeting to ask them what these different models are. But there's no there's no playbook. There's no guide for this, especially when a family wants to go invest in something and think it's interesting. So I feel that's been a real challenge. But also it's been really fascinating to learn. And I think, you know, my wife and I are always learning and always wanting to understand more. So that's been a great part about starting this business. Right.

Speaker1: [00:22:42.29] Well, how best for listeners to get back in touch with you?

Speaker2: [00:22:45.21] Yeah, I'd love for CPG folks out there or anyone who has a question and also folks looking for advisors and investments. You can hit me up on Twitter. It's probably the easiest way I'm at Dave. I am. I've been on Twitter a long time, but use it all the time, happy to correspond with people. So hit me up on there and then also happy to have people reach out to be my email on my email is a D and E f f twenty two at Gmail dot com and happy to go from there.

Speaker1: [00:23:17.40] Right. We'll put that in the show notes. Want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:23:22.40] Thank you. Thanks for having me.

Speaker3: [00:23:24.68] Investor Connect helps investors interested in startup funding in this podcast series Experience. Investors share their experience and advice. You can learn more at Investor Connect, Doug. Paul Martin is the director of investor Canek, which is a 523 non-profit 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 opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.