Harlan Beverly of Disruptive Labs

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 the Connect the Day, I'm here with Harlan Beverly, ambassador, adviser at Disruptive Labs. Disruptive Labs is a news startup studio making investments in startups by building MVP's and setting up automated cells in exchange for equity. Disruptive labs helps founders that have proven customer need but cannot build an MVP without investment. You cannot get investment without an MVP. They break the cycle by building MVP products for equity and stay on to help scale up through sales and marketing automation. Harlan thank you for joining us.

Speaker2: [00:00:51.45] Oh, you're welcome. Thanks for having me. I'm very excited.

Speaker1: [00:00:53.76] Great. So what was your background before joining Disruptive Labs?

Speaker2: [00:00:57.99] Um, sure. So I'm a three time startup founder and I've been a part of many, many other startups. I have a technical background, so I have an engineering degree. And I did a lot of software development and my career worked for Intel for quite a while. And then I started my first business in twenty five Big Foot networks and we raised about twenty million dollars for that business and had a successful exit in 2011. And since then I've been doing I've been doing more and more stars with less and less funding because I think, you know, your funding is important for growth and the time important is super, super critical. And so if you could get the company a little further along before you raise the funding, then you're not only going to get better terms, they're going to increase their chances of success. And that's part of what why I'm so excited about what Disruptive Labs is doing.

Speaker1: [00:01:49.35] Great. So what led you to start work in this space for?

Speaker2: [00:01:52.35] It is interesting question for me. I was working at Intel Corp. and it's Intel is a great company. They have a great culture. I don't want to say any bad part because I still have a bunch of stock in Intel, but also because it really was a great place to work. I mean, they really take that well, but as just a engineer, I say just an engineer. I got promoted to architect in my last year there. But just as even as an architect, I had no idea about how the business was being run, why some projects got canceled and other projects did not when the cancelled projects were often the better ones. So I it was mystified me. And I had an idea for to bring consumer sorry to bring like server level network acceleration to the consumers. And that idea I pitched it to my intel bosses and they said, sounds interesting, but it's not really what we want to do. And I didn't understand a decision. So I decided to go off business school, figure out how to start a company and found my own company. I got Intel's permission to do that. They actually helped pay for my MBA and gave you written approval to work on this this project. And that's how I got my start. My taste in entrepreneurship.

Speaker1: [00:03:01.68] That's great. So what's your advice for people that are investing in this space? What do you tell them to do before they write that check?

Speaker2: [00:03:07.87] Yeah, that's a great point. In the sidenote, I've been a mentor, an advisor at Capital Factory, which is one of the largest accelerators here in central Texas where I live for about five years. I've been doing that along the way. I have invested in a number of companies. I've done some angel investing. And for me personally and what I always suggest when I when I speak with other mentors and, you know, would be investors is go for companies that a you understand that are understandable. Like you either know something about that market, you know something about that business, and B, that that have shown they have traction with customers and traction with customers has now has has changed over time. I think before 2008, traction with customers like during the Bigfoot era would have been good survey data, lots of lots of excitement around the idea, customer prospects that are interested, but not sales after twenty eight. It's my opinion that investors, including myself, got a little more conservative. And now what we want to see with traction is actual sales or pre sales with real customers. So as an investor today, as a as a mentor, advisor and investor, that's always what I'm interested. I'm interested in things that I can understand because it's a space that I know, like gaming or hardware or consumer or consumer apps. Those are areas that I know well. In addition, I want a company that has proven customer traction in the form of revenue. It doesn't have to be huge revenue, even like I say, a thousand dollars in monthly income income. And my monthly revenue would be a first threshold at which I think an angel investor like myself might become interested. A lot of people think 10K or fifty K monthly recurring revenue is needed, but that's really more of the VC level for me. I just want to see that you've got something out there and that customers are willing to pay for it.

Speaker1: [00:04:57.00] Great. So how do you see the investing industry evolving from here? Where do you see it going?

Speaker2: [00:05:02.31] Oh man. I think I think two things are happening. One is the the acceleration of crowd funding or crowd financing sites, equity crowdfunding. I think that's going to really continue to change the landscape where where they'll be. You we as investors will be able to see more deals and be able to put our money in the. Where we can really add value and these crowdfunding sites, they give you the chance to do that, you can really locate the things that you really understand and can bring value to. So I think that's going to continue. There's already talk about legislation to improve and increase the amounts that we can invest through that and so that even casual angel investors can put money into startups that that that have on those platforms. I say in parallel with that, the other thing that I think is happening in the industry and I think will continue to happen is where we're writing more frequent checks but less large checks. And and I think it's a good thing overall. And what what do I mean by that? Lately I've been hearing a lot of people say, oh, I'm going to go get my seed round from a venture capital firm. And then I say, OK, but venture capitalists typically invest like crazy. Like, what do you mean you're getting a seed? Are you? Does that mean you're not getting preferred stock? And of course, I get glazed over.

Speaker2: [00:06:15.68] Look, because the reality is, of course, of course, of venture capital investors, I'm going to get preferred stock. And so technically, that's a series a preferred preference on the stock. So technically, it's a series. It's not a secret, especially when you think these companies, they've they've already raised like friends and family and an angel round of like a million bucks. And now they're getting their seed. And it's a little bit of a pet peeve. But I think it's also a trend where I think companies will have more rounds of funding at more growth inflection points. And I think it's a good thing because you should have to prove that you can build a product with your own, you know, bootstrapping with friends and family. And you should have to prove that you have a semi a slightly scalable business model. In order to get to an angel, you have to you have to have sales traction. You should have to prove that you have a truly scalable model before you go to a VC. And and that might mean more early rounds. And that's OK. And I think it's a good thing for the industry.

Speaker1: [00:07:07.38] Well, that's great. So what is the growth rate of, say, crowdfunding and other aspects of this sector?

Speaker2: [00:07:12.11] Yeah, it's a interesting point. I think what was expected to happen was that with the crowdfunding platforms, people would be more non accredited, investors would get involved in angel investing. I actually don't think that that's played out. I mean, yeah, of course, it's an avenue where a non accredited investor can get involved. However, what's really happening is even accredited investors can use these platforms to find the kind of deals that they want. So I don't have the data on exactly the the they take the take up rate. And but I do know that a lot of these shops are doing very well and and there's kind of convergence happening. So there's like some big shops that are continuing to to to expand and take larger market share in the crowd. Equity crowdfunding space.

Speaker1: [00:07:53.79] Well, that's great. So how many companies are engaged in it at this point?

Speaker2: [00:07:57.11] I'm not sure, to be honest with you. What and I know we're going to transition to disruptive labs shortly. But what I do know is that the opportunity of these multiple rounds and these earlier rounds, it does open up the door for things like a disruptive labs, which is a startup studio. It's not really an equity crowd funding deal, but it does open up the door for more service providers like what Disruptive Labs wants to be to come in and help a company get to a stage where they can do really well on the equity crowdfunding platforms, like even even even crowdfunding traditional crowdfunding, which is like Kickstarter, Indiegogo, like you can go in there and be successful, but you really have to have something. You have to have something to do that. Well, the question that we solve is how do you get something when you have nothing and no investors want to do anything with it yet. And that's why disruptive labs exist, is to help people kind of get over that hump. As you said in the intro break that cycle where you need money, but you can't get money until you build something. You can't build something without money. So I think that's if more things like the troubles have come on board, which I think that they will, then I think it opens up even more opportunity for, first of all, business growth. And it's an it's a hot market. Entrepreneurship is the future.

Speaker1: [00:09:09.98] So tell us more about disruptive labs and how it works.

Speaker2: [00:09:12.92] Sure. So Disruptive Labs is a startup studio and it's not a brand new idea. So there have been other startup studios and there are some today. But what's unique about disruptive labs is that what they do is they'll come in and they will talk with you and help you figure out what you really need in terms of getting to the first that inflection point. Right. And really investing is all about inflection points, right. If you invest too early as an investor, it's very risky. If you invest too late, it's too rich, you don't get enough equity. So you have to find that perfect inflection point. Well, for an entrepreneur, that means you have to get your business to a certain inflection point to be able to to remove some of the risk for the investors, but not too much of the risk and such that investors are unwilling to meet your terms. So that's what Disruptive Labs does. So what we do is we consult with the company. We help them figure out what their next inflection points are. Usually it's one or two. Usually it's where we help. It's one of two inflection points where they like we said a second ago, they they don't have a minimum viable product or an MVP. They don't have a product yet. And they. Need something to the scale that they need, they need something to build, that they need engineering talent probably to help them build that and sometimes design talent. So disruptive labs will come in and we will work on that for equity. We will help them build a MVP with design and coding and a fully functioning software and sometimes firmware, certainly apps, websites, desktop apps, whatever back end stuff, all that stuff that you need. And we'll have to help the company get to a point where they can get the first customer.

Speaker2: [00:10:49.87] That is a huge inflection point, having something in the market, even if it's not complete, but getting those first customers on board, that's that's where we really want to help add the most value. And disrupted lives is a bit unique in that we will do that for equity. And you're not getting just random people. You're getting someone who's got a lot of experience and starting a bunch of companies. One of the partners will come on board and help you get things going and and build it very quickly. That's a really exciting moment, I think, for a startup. There's another inflection point that really matters. And and Disruptive Labs is doing it at. The second inflection point is when you have an MVP, you've got a few customers, but you haven't shown that you can scale. And going back to the comments I made earlier, you know, we're talking precede money. You've got to get an MVP bootstrapped and we can help with that disruptive labs. But then when you move past that, you go to this, you've got to MVP. Now you have a new problem. You can probably raise a good angel round that way because you've got an MVP. But if you're going for a venture around, you're going to have to show that you can scale not that you are scaling because you're going to need the venture capital money to scale. But in order to succeed with a venture investor, usually you need to show you can scale. And that's the second inflection point that we could help. And that's what that has to do with scaling sales. Typically, a company that has had success building MVP, you know, they need help scaling sales. And that's the other area where we can help

Speaker1: [00:12:14.71] When it's great. And so what's the next step for disruptive labs? Where are you

Speaker2: [00:12:17.74] Going to do next? Oh, thanks for asking that question. I think for a while there's two parts to that. So there's there's lots of labs and there's myself. So disruptive labs is its own thing. And I'm I'm just an adviser slash ambassador for it. I really feel like it's a force multiplier in my mentorship that I do for companies, an advisor ship. So what they're trying to do is get more mentors that are helping startups. Just be aware that these kind of things exist, not just the disruptive labs exist, but the concept of startup studios' exist. That there are people like disruptive labs that exist that can help companies, you know, get get an MVP bill or help them figure out how to scale sales. And they're willing to do it for equity. And what what breaks my heart and how I'd love to hear your thoughts on this throw back at you, but it breaks my heart is when a founder takes a loan out on their house or they take some predatory deal just to build an MVP and the risk level is so high and they really can't afford that risk. But what are your thoughts on that? Right.

Speaker1: [00:13:13.06] When they do that, that usually means they've either one scoped it too large. You know, the vision problem, I call it, where they have a vision, but they want it all on the first day they open the doors. And true final visions take many years to come. So you have to scale your vision down to something that you can actually go to market with. And to hire a team that helped build that, you should have a co-founder that should be building that for equity, not

not a banker that's doing it on a loan. So they just structured it in the wrong way and they scaled it or scoped it too big to which I find is often the case with startups.

Speaker2: [00:13:46.09] Great point. And I totally agree. And that's why I use the term minimum viable product. I use that also in my book, which I hope we get a chance to talk about. But a minimum viable product should be minimum. It should be the littlest thing that you can build that's going to improve customer validation. And so you and I are totally in agreement there. And you also mentioned, you know, this idea that you would like to get a co-founder. And that is absolutely true. I mean, and that's where disruptive lives kind of comes in. Like we sort of act like a co-founder in the way that you hate me behave. And even in the terms, the structure of the deals that we the equity deals that we make, it's like you're going to you're not going to pay us all up front. We're going to earn it out over a period of time. And that's the way a co-founder should be rewarded to. And and in general, we sort of act like a co founder that for those those who can't find one or or an end, to be honest, it's hard to get off. Co-founder, you have to prove some things just to get a co-founder. So, yeah, I agree with that completely. They they probably scoped it too big and then they got bad financial advice as well because they should not be making such huge investments in their own ideas and their own business without enough net worth to back it up. And I

Speaker1: [00:14:49.54] Agree. So I understand you've also written a book called Lean Starting. Can you tell us more about it and what inspired you to write it?

Speaker2: [00:14:55.81] Sure, yeah, absolutely. And actually written two books and just something interesting about the journey. I was inspired to write a book, Lean Starting. This is the first one and I was inspired to write it because I really loved another book called The Goal. And I and I read this book during my MBA program. And it's a great book. It's by Eliahu in Gold Ghodrat and it's like required reading and a lot of MBA programs. And what it is, is. It's a the goal analysts are both written in the same style, which is as a a fable or a parable where almost like a business fiction and the idea is that it's a story like there's a people involved, there's humans, there's relationships, you know, there's a heart attack and lean starting that happens. And that stuff happens in real life. And there is a love story involved and there's it's it's fiction. But through reading the fiction, just like a fable or parable, you learn about business. So the goal was my introduction to this category. And it's one of the very few business fiction parables that exist. But it's so popular because it teaches you supply chain and what's called the theory of constraints or a bunch of other term bunch of other things that you learn, but basically supply chain management through this narrative. And it was such a compelling and my favorite book in all business school that I decided, you know, there needs to be one like that about entrepreneurship.

Speaker2: [00:16:20.16] So I went about the process of trying to find a publisher who was interested in publishing a business parable, a fiction, a fiction, a work of fiction that would teach you how to build a startup. But it's a fun story way. And boy, it was hard. Just the publishing business is hard, like trying to find someone who wants. And the feedback I got was, you know, if you want to write a basic business book, that's great. We would we would help. We would publish it, especially since I have a Ph.D. in business now. So that helped. But if you want to write a parable like a fiction, maybe not. So I had to sell published leads, partings, and it was a lesson in humility. And, you know, like I still stand by the book, I think it's great is particularly good for teenagers. And if you read the book, I hope you get a chance to read it. It's really fun. Read you find out only at the very end that in fact the main character was in fact a teenager. And so who who does this first start up and at the end you buy fancy Ford Mustang. So kind of a fun story, but it did lead me to this journey of understanding the publishing business, and it led me to my second book, Navigating Your Way to sort of Success, which is which is now a bestseller and very, very proud of that one. Of course, it had a publisher.

Speaker1: [00:17:30.27] So who's your primary audience for it?

Speaker2: [00:17:32.34] Well, for four lead stories, my my goal was the general public and I didn't succeed with that. One is going to self published. It's done OK. But but for navigating your way to sort of success, my made audience really was too. It was people in business school. So students in business go look. And I have a PhD and I teach at Texas State University entrepreneurship class. And so all of my students use the book and the students all over the country are using it now. It's being used in lecture halls everywhere from the East Coast, Stanford to Stanford. So all the way back into California, it's been used in various classrooms. And that was really one of my main targets and the other one was in corporate innovation. So how do you innovate if you're already in a company? And I really try to make the book, explain how you could go about doing what I wasn't successful doing, which is convincing Intel to fund my startup internally. And so the book kind of shows the ways of that and it shows the way through failure, because each chapter of the book, again, we're talking about the second one, navigating your way out of success.

Speaker2: [00:18:33.22] Each chapter of that book, and it's in that one is nonfiction, like you would expect an entrepreneurship book to be about. But each chapter, it has one of my one of my failures. And I talk very openly, honestly about how I screwed it up, which is something I think is lacking in some of these entrepreneurship books. They talk about the successes but not the failures. And to be honest, I learn more from every failure than I did from any success. And that's what I tried to share. And I also shared a failure of learning from from a different from a different startup, not just my own. So a company that I've ever mentored or advised throughout the years. So you get real world examples and you get actionable action to either start your own business or try to do it inside your corporation and do something with corporate innovation internally. And yeah, those are the two areas where I feel like we as a country are excelling. And if we continue develop these skills, it's going to take us into the twenty second century.

Speaker1: [00:19:27.70] Great. Well, aside from the publishing aspect, what surprised you the most that came out of that experience?

Speaker2: [00:19:32.79] I think the biggest surprise was that the positive reviews, the feedback that I get all the time about how the book helped them change their life, helped them start the business to me, I didn't think I would enjoy it as much as I do. I really do. It sort of has inspired me to write another book in the future, not so much because of the financial success, but because of the feedback that I get from people who read it. And I just had no idea that I as a person would would enjoy that feedback. So much like that. I'm helping people. And and it makes some sense that I mean, in retrospect, I mean, that's part of why I decided to start teaching a class at Texas State and why why I love like giving back as a mentor and adviser. But now I get it from strangers, people I've never met you. I get an email or a phone call and it's a stranger who's read the book and put it to action. And boy, that's really, really. Wording and so the the intrinsic rewards for writing a book that people love makes everything worthwhile.

Speaker1: [00:20:27.38] So based on this experience, what do you consider writing next?

Speaker2: [00:20:30.32] Oh, I have got a couple of ideas. I think that the top idea I have is on leadership and sort of like the practice of management through leadership. And part of the reason is I see so often leaders get to a certain point and they have problems letting go. And it kind of comes from one of my failures in a very common founder problem. Challenge, I guess, is letting go and not not micromanaging. As your company gets bigger, you have to let go of the reins. And it's so hard. I had trouble doing it for my first two startups for sure. I've gotten a little better start started four or five. I've gone a little better, but it is a very important transition. And and where I live in Austin, Texas, I would love for Austin to become the place for where people go to to find the CEOs. Right now they go to Silicon Valley to find CEOs. And it stresses me out. It frustrates me even at companies that are here in Austin. They get to a certain stage and then the investors say, well, we need to bring in a professional CEO and they go get someone from California. Well, I think Austin should be the place where they you get the next level of CEOs. And they're really the only difference between an Austin CEO and a Silicon Valley CEO is a Silicon Valley CEO has figured out how to let go and let their lieutenants take run the business while they keep their eye on the ball, on the big picture and the board of directors. That is a skill that I've learned. I've successfully learned now, and I think I can share it, communicate it, and hopefully level up every single Austin CEO to the next level. That's a heck of a mission, but I'd love to take that challenge on

Speaker1: [00:21:53.87] The screen when the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:21:57.59] I think it's worth talking about some of the things that are happening in the in the space around like technology, because one of the things that I'm also passionate about is innovation and technology. And I know it's just a little I wish you could do a whole nother podcast hall or maybe I should do, I don't know, maybe do it together about like pet peeves. Because the word I it's just overused and I'm sure I don't know. Would you feel the same?

Speaker1: [00:22:22.49] Well, you everything's I and I talked to some investors in the first first requirement they have is that you have to do real A.I. So there's a lot of people that are not doing they're doing other things, but they call it A.I. for sure.

Speaker2: [00:22:34.85] Yeah, that's my point. Like, what is even real? I mean, it's hard to define that. You know, it's it's tricky. Doesn't have to use a certain sensor flow algorithm or does what does it mean? Does it does it have to have a feedback loop? I mean, is it computer vision? There's so much around it. And the reason I mention this is only because there's a dichotomy that's happening. And the dichotomy is investors want to invest in things that are cutting edge, that are that are Newtek. Right. And I do, too. But yet there's also kind of a smoke and mirrors that happens when I say I have I. And really what I have is an algorithm underneath it. And it's not really like you said. Not really. And I just one of the buzzwords there's a bunch of others block chain is another one, OK? It's also just a big database. So maybe it's going to be black chamber and the database, I don't know, it gets it gets a little frustrating. And the way I see it and what I would encourage everybody to think about is. From the perspective of an investor, what is more important that you have a really great product and you have customers and people are willing to pay or that you're using a cutting edge technology, and I think there are two separate things. I think a great business can be had by leveraging other existing technology.

Speaker2: [00:23:44.62] For example, Amazon has some great sort of cookie cutter II that you don't have to code at all. And you get to use it for computer vision, for trend analysis. They've got these great services and you don't have to use it. You don't have to be a core tech company. And that, to me, is the right kind of company to start a company that I mean, nothing wrong with the core tech company. Go for it. If your core tech person you've got this deep tech background, yes, you should be doing a core tech. And actually, my students at Texas State, that's whether they have they're bringing core tech and for core tech business, maybe the customers aren't as important. And I'd love to hear your thoughts on that, because it's like it's I'm categorizing these two things, to be clear, a core tech company which is doing, quote unquote, really either create that means they're making their own algorithms. They're not using somebody else's stuff. They're building their own A.I. systems. Right. That's a core tech. Same thing with lots of different projects. Could be a material science, could be a computer science. But they're building a brand new core technology that could be used by many companies. Right. Then there's a product company, a product company uses other people's core tech, puts them together into something that really delights customers. I don't know. What are your thoughts on those two types?

Speaker1: [00:24:56.62] Well, I find when you build these systems, it's really a three step process. Number one, you need to master the domain and sell, say, a product or service in that domain. While you're doing that, you need to be building data sets, true runs off Goodrich clean data sets, and you really have to build those. You can buy some, but you really need to build those. So selling a product or service that lets you build those data sets puts you in a position that you could then actually go after building core tech on top of that. So knowing the domain and then on top of that, having a database and then on top of that, now you can start to build a core tech process itself that will stand up. And so I think that that's kind of the angle I always take at it, because I see startups wanting to do a I and I find the ones that I think are going to be successful are breaking it down into steps one, two and three and not trying to do it all in one go unless it's in a very, very narrow niche that in many cases they already know or they already have data for. So that's some of the issues I find with APIs. You have to build up to it. And because it's not cheap for sure in time or dollars,

Speaker2: [00:25:58.39] I totally agree with that. And I would definitely call that a successful cortex strategy. But my argument is not every company needs to go that way. You can you can continue to leverage someone else's core tech and build an awesome multibillion dollar business. I've seen it time and time again where that happens. And and because you focused on the customer, you know what I mean? And if you can focus on the customer, then that can also be your path to success. I'd say a disruptive labs. What kind of companies that we want to help are the ones that are focused on the customer, because they're the ones that need to get a product out in the market in front of the customer. Whether that's a B2B or B2C customer doesn't matter, but they need to get it out there and they don't need all this special secret sauce in the inside of it in order to get it out there. Does I agree with your point? Maybe the future they'll have this special secret sauce. But for now, like, let's just get something out there that works. That's the minimum viable product and that's the right strategy for core tech company. I totally also agree with your with your point is like, look, you've got to get the data sets. You've got to get this thing proven out technically. And that's a very important piece of it. So and and then your core could be leveraged by other companies. And that's that's a great that's a great strategy there. And I'd say that's more of my students at Texas State are that, as are most PhD students, doing this doctoral research in these areas. And that that is definitely the strategy for them. They still need some they still need market validation, but maybe not the customer revenue traction to get funding if they can prove the context without the revenue. I think it's fundable as opposed to these other companies that really aren't core tech companies. They just pretend like they are those ones. They just that they have to have the customer connection

Speaker1: [00:27:30.47] I agree with. And so how best for listeners to get back in touch with you?

Speaker2: [00:27:33.91] I am quite available and handy. I probably the easiest way is LinkedIn, where you can search by name Harlen Beverly and you'll find me. And that's probably easiest way. You can also go to my website. It's fast I dot com and I got the little I term in there and yes, I had an a company but it was, it was not the content kind, it was the real lever, somebody else's API kind. And this is why, this is why this conversation has been really interesting. And I appreciate your thoughts on it.

Speaker1: [00:28:02.89] Right. Well, 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.

Speaker2: [00:28:08.02] Thanks so much. I appreciate you.

Speaker3: [00:28:09.30] For investor Canek 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 five Wannsee three 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.