Greg Shepard of BOSS Capital Partners

Speaker1: [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. Interested in learning more about investing in startups, launching a new startup need to raise funding, the startup Funding Espresso is a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso. You can learn about startup funding to subscribe to disconnect or input your email it to the pop up box.

Speaker2: [00:00:40] Hello, this is Hall Martin with Investor Connect. Today we're here with Greg Shepard, founder of Bass Capital Partners. Bass Capital Partners is a boutique consulting firm dedicated to working with technology businesses that need operational expertise and guidance to achieve capital efficient and rewarding outcomes. By utilizing the boss as its operating support system, the BCP team assess portfolio companies with tactical challenges they face in product management, engineering, sales, marketing, pricing, legal and finance. Greg, thank you for joining us. You're welcome. Thank you. Right. So what was your background before investing in early stage companies? What did you do before this? So, yes, I have built and sold 14 of my own companies as an entrepreneur. So I've had 14 exits. I've won four private equity awards for transactions between two hundred and fifty and a billion. I was part of the eBay divestiture of their entire marketing solutions companies for 14 companies. The three turnaround's. I have a book coming out published by Forbes in January. I have a Forbes radio show. I'm a TED Speaker. I have one hundred articles with twenty nine publications like Fortune and Forbes and all those sort of things, and then sometimes I'm on the news and I don't know, you get the idea. It's it's kind of at some point I kind of feel ridiculous, but, you know, that's great. You had quite a bit of an experience there and I guess a lot of wisdom to share with startups as well.

Speaker2: [00:02:13] So given all that and where we are today, what excites you right now? When we start? What happened was I went into politics for a while, for about five years, and I was working as a working with politicians and congressional and senator candidates. And that didn't work out for me very well. Just kind of a very difficult to feel like you're making a difference. So I was meditating on the beach and then I came up with while I've been creating this thing, boss, the business operating system for myself, which is what I used in all these different companies, what if I just started giving this away to entrepreneurs and then helping them and then that sort of caught fire? And then I was doing lectures at universities and then, you know, writing articles. And then I started to get all these entrepreneurs calling us. So we started a syndicate, a bunch of investors, a bunch of guys that had exited businesses with me or other folks. And we started to make investments in into startups, early stage startups. And I was teaching these early stage startups the bus business, operating sports system stuff. And then that spun off and created bus startup science, which is a academic academy to help entrepreneurs using that system, which now is in the hands of like six million entrepreneurs all around the world. There's a lot of accelerators using it, associations, universities, some people are changing their curriculum around for it and stuff.

Speaker2: [00:03:45] And so I found the way that I could help, which is something I was very adamant. You feel so fortunate when you build and sell a company or you should feel really. Fortunate, maybe not lucky, but you definitely feel like something happened to you that doesn't that happens to one out of 10 and you really have this feeling you want to give back. And it happens to me 14 times. So I'm like at the end I'm sitting here going, man, I really need to give back to the universe. So I so that's what I do now. Great to meet a lot of investors, and you work with a lot of startups.

What's your advice for people investing in startups? What do you tell them to do before they write that check?

As I do in our deals, in our portfolio, I make the first investment, I write the first check, and then everybody else writes checks. I, I there's a few different things, the first thing is, is that if you start with the founder, you have two types of founders, you have a visionary founder and you have a subject matter expert, founder and visionary founders usually have some really good idea that they're going to come up with. That's going to. Exponentially increase revenue for somebody and then subject matter expert found is usually find the problem. So there's those that also then tells you there's two types of businesses, those businesses that are exploiting an opportunity in those businesses that are solving a problem and that then aligns with the economy.

Speaker2: [00:05:20] So if you have a bear market economy and you're trying to work on a business that's going to exponentially increase sales, you're going to have a hard time. But if you're working on a business that's going to save money and solve the problem, then you're going to be relatively successful. So when I first talked to investors, I'm like, OK, what type of founder is it? Is their business model going to either increase sales or save money? Are they solving a problem or are they increasing revenue, taking advantage of an opportunity? How does that align with the market? And is the founder a visionary or a subject matter expert? That's the first thing. The second thing I do is I tell them to break it down, start with the problem, solution and impact. So what is the problem they're solving? What is the solution that this business is going to present to solve that problem? And what is the impact at the end of that trail now? Does that impact and align with what's called an IP, an ideal acquirer profile? Now, one of the things that. If I get into a lot of debates with people less now, when I first started talking about this, I got a lot of debates with investors, but a lot less now is that you always have to start with the end in mind.

Speaker2: [00:06:35] So you have to start with who's going to buy your company and invest or invest in your company for a later outcome, a return on their investment, which means that you have to exit unless you're doing a lifestyle company, in which case this doesn't apply, but nor does raising capital. So if you say to yourself, OK, I am building this company, it's going to solve this problem and have this impact, it means that you have identified an ideal customer profile, meaning the company that you're selling to and alongside. With that, you've identified the persona of the person that works at the company that you're selling to. The reason why they're separate is because the company can have a big problem that's being solved. But the persona maybe doesn't necessarily have the same pressures to solve the problem. Sometimes you're trying to sell something. They go, yeah, this solves this big problem. But I got to go to accounting. I got to go to legal. I have to change everything. I don't want to deal with it and they just kill it. And so it's it's just like the problem wasn't there in the first place. So once you understand those two things, then you have to go to your acquirers. So who are the people? They're going to buy this company and then you have to identify them just like you would identify ideal customer profile.

Speaker2: [00:07:50] You have an ideal acquirer. Now, why and why do you do it up front? First of all, if that company is going to be buying you, the majority of the companies buy based on a synergy. So if they're buying to save money with what I spoke about earlier, then their strategy is going to be how does this product or service save us money? But the majority of the companies buy companies to increase revenue. Why do they do that? These larger companies have spent a long time in a lot of money acquiring their customer base, so they've absorbed their customer acquisition cost. And there's a thing called LTV, which is the customer acquisition cost to the lifetime value. And then whatever you make is your profit. That tells you whether you should lay the throttle down and build more, put more money into sales. If the customer that a business you're trying to invest in as an investor doesn't match the customer that is in the companies that would buy you, you have a mismatch. You need to know that right up front, because if there's no alignment, you're not going to get the multiple that you're after or even the company may not even buy it because they're like the only reason why I'm buying this is because I'm going to sell to my existing customers. And if you don't have the same existing customers, they're not going to buy it and then you lose your your acquirer, and that's why when you look at the 90 percent of entrepreneurs that fail, 40 percent of them fail in the first year and the rest of them fail actually right before an exit because they have either overvalued their company or they didn't think about who's going to buy the company and they can't turn back.

Speaker2: [00:09:23] And so when I talk to investors and I'm looking at the pitch decks and stuff with them, I'm saying, listen, make sure I understand who the founder is. Make sure you understand the problem, solution, impact statement, and then make sure that you understand who the buyer is and that there is a match between the buyer and the company you're considering investing into. Sorry that was so long winded, but it's great advice and really covers the process. And investor needs to look at evaluating startups as it really fit the entire profile. So that's really good.

And then on the other side of that table, what do you tell startups to do before they go out to raise funding? What's your advice there?

For a startup, there's a life cycle that you have that's in place that you go from pre revenues to this is like preseason seed and then you go from revenue. And once you get a dollar of revenue or and you have some customers, you go from that into series seed and then a and so on.

Speaker2: [00:10:22] You want the business to sell in about five years, and the reason why is because most businesses hit their go to market strategy at about 18 months in. Or a year and a half, somewhere in that range, two years, somewhere in that range, as soon as you go to market and you start broadcasting your business, competitors or people that could be competitors become alerted to the possibility. And it typically takes a startup entrepreneur the same amount of time to get there. So if you're 18 months in, you can expect competitors 18 months from the point that you went to market. So you don't want to leave yourself out there open for competitors for a very long period of time. So you want to compress the amount of time that you're working on that strategy. So if you're a new entrepreneur. Knowing that helps, the second piece, I would say, is that when you raise capital, overvaluation is a huge issue. If you look at I studied I had a team of five people studying why entrepreneurs fail for five years, try to figure out what was happening. And what I found out was that ultimately there was a huge disconnect between what the entrepreneurs thought they were doing when they were raising capital and what the investors expected. So they were thinking, I'm raising a million dollars and a five million dollar valuation. The investors are thinking I'm I'm giving this company a million dollars, but I'm expecting twenty five million right there at that first round because it's five X on top of valuation.

Speaker2: [00:11:55] That's their five X return. Right. So you can imagine if the company didn't do their IAP either. Their buyer profile the ideal acquirer profile that I spoke about earlier and they don't know how much those companies typically buy. Maybe they're like we buy twenty five by fifty million. We buy whatever they could get overvalued in the first few years and then the investors walk away. The company runs out of money, boom, you're done. So it's very important as an entrepreneur to understand the investors expectation at the point you're doing the round, because even though you may say, oh, and entrepreneurs always make this mistake of trying to get the highest valuation early on and do a big round, that's a colossal mistake. You take an evaluation that is realistic according to your model, and then you take as little as you can and you have exact benchmarks and achievement points that allow the investors then for you to do cash call and allow the investors to follow on rounds, post the first round and the achievement of these expectations, because you can raise the valuation the first that first round you do is the highest dilution at the lowest valuation with the highest risk. Right. You have six months later, things are different. Six months after that, things are different. So why would you take all the money up front and get the highest value? It's against all the principles of the pattern that you see when you see businesses go to market and that's where they fail.

Speaker2: [00:13:23] Like the failure points are just riddled with that situation. So for startup entrepreneurs, that's sort of like some of the top level advice I would give them when they're first going to market to try to raise capital. I think there's two more things that are really important. One is pitched. You need to have an acquisition. You have to have an exit strategy, something. Right. And you have to have a go to market strategy and go to market. Strategy is not a sales trend. So that's the other mistakes that I see all the time. OK, great, let's talk about the state of investing. How do you see the industry evolving from here for funding startups? I mean, it's really crazy in two thousand and ten. They were more accelerator's than there were startups. So it's obvious that the world of accelerator's is just booming. Right. But you have to remember that in accelerator's business model is is a it's a pretty good business model. Right. They their business model is you know, some of them will say we'll give you two hundred thousand dollars, but then we're going to charge you two hundred thousand dollars in what we're going to give you services, training, whatever is right. So net net the the business picked up two hundred thousand dollars in equity, but then on the back side they're saying, OK, to the investors, if you put in a million dollars into this business, we're going to take two and 20 on that.

Speaker2: [00:14:43] So two percent management fee plus 20 percent on the exit. So they're making money on both sides. And these entrepreneurs don't really understand the mathematics behind it. They don't understand where the money comes from. And they they tend to fall into this a lot. So the the future of of this, I think, is the there is going to be a compression because we've already had the expansion. It's going to be in compression of accelerators. And I think accelerators have a very good purpose. They should be there. We need accelerators, but they need to do a much better job preparing these entrepreneurs for for after they leave because you see a 40 percent drop off right after they leave the accelerator. I mean, if I was an accelerator and four out of 10 people fail, I would be asking myself what I'm teaching these people or who I'm betting up front. Right. And so that's one thing I see changing. The other thing I see changing, as you see, you have the private equity folks doing big transactions and venture capital and then micro voices and then angel investors. If you look at the stack and I think that the what you notice venture capital is that in the first place.

Speaker2: [00:15:51] So what you see is you see the people that were angel investors moved up the chain and did transactions until they became private equity. And now instead of investing fifty thousand into a business, they're investing five million into a business because what they know is that in the amount of time and the investments that they make and so on, the more money you have in play, the more money you're going to make at the end of the day. But that forgets the the food chain that for BET forgets the leading indicators, which is the startup process that gives them the opportunity to do those bigger transactions online. So I see a lot of the investors now that are playing in private equity starting to say, OK, I'll still play in this private equity arena, but I'm going to allocate a certain percentage of money to early stage startups. And that's one thing. The other thing I see, I think, is that if you have a 90 percent failure rate, which is one of the problems I'm trying to solve, that means that nine out of 10 investment you make is going to fail. And if you're a regular investor, somebody that's a high net worth individual or inherited money or something like that, and you lose nine out of 10, you're probably never coming back. So to fix that issue is to fix the entrepreneur issue, which is what my focus is to bring down the failure rate, to understand why they're failing and where are the points they fail is the only way to tackle that.

Speaker2: [00:17:16] So if the market kind of works with me in this process of trying to understand why they fail and putting solutions in place and stops running this like a machine, like a meat factory, because you kind of think about it and you have entrepreneurs come in, they hit a conveyor belt. The first thing is the stamp of the accelerator. And then they go through this process and whoever makes it makes it never fails, fails. And the whole mechanism is built around that. They know that they're going to fail. They have risk mitigation. They make a bunch of small bets and one of them is going to work big. They need to be thinking we're going to make less bets, we're going to put more money. We're going to make sure that they make it and that a lot of it has to do with just making sure there's an understanding that the entrepreneurs have of the investors going back to expectations and stuff.

All right, so what do you think is the biggest change we'll see in, say, the next five years in the startup space?

I think that you're going to see a an explosion in the middle, right, because the investors that were angel investors, now private equity investors, and there's a lot less deals that far up the street.

Speaker2: [00:18:27] Most of the deals are early on. So they're going to run out of that. They're already running out of stuff before they rush to IPOs and things tank and they lose money and they're starting to learn. So I feel like some of that money is going to be moving more to the middle of the funnel. The beginning of the funnel is going to stay with the accelerators and those sort of people, because it's in that those those folks are like it's so high risk for most for most investors. They're just it's it's too risky for them. So that that's still going to be very difficult. And probably the government should help out with that. But the middle piece, when somebody actually has revenue improved a customer and just needs some help, that part, I think, will be will explode substantially.

Right. Well, let's talk about your investment thesis. What exactly is it and what your criteria for funding a startup?

We look for technology companies that have recurring revenue. My background is in technology. That would be another node for the entrepreneurs. When you're raising capital, make sure you understand what their thesis is. You can waste a lot of time talking to the wrong people that are never going to write you a check. But ours is technology companies that have recurring revenue. We provide a lot of stuff to the entrepreneur, so we we will give them a tremendous amount of help, real help, not the kind of help that investors usually talk about.

Speaker2: [00:19:51] It's actually real help doing the models for them, guiding them through or developing their go to market for them, adding in, making connections. Typically, investors will say, oh, we've got a big Rolodex and they're going to connect the dots, not practitioner stuff, which is what these people actually need is a real practitioner help. And so we do that. So we look for businesses that are in need of that, that are technology businesses that have recurring revenue and they're solving a problem, not necessarily exploiting an opportunity, but solving a problem that are usually founded by subject matter experts. So somebody who's in the business I talked to a CIA agent early this morning who's been in the CIA for 15 years, found a big problem with the way that they transfer data back and forth and built a company to solve that problem, that problem. That guy's the only guy. And the people like him are the only people that are even aware of that problem. So there's an automatic moat built around the opportunity. And he's in government. Right. So he is a subject matter expert and he knows how to navigate. That's the kind of stuff we look for. Weird, unique, cool software stuff. Cool. Well, you see a lot of startups and investors with the challenges they face. What do you see as the main challenge start space that you work with? I think that.

Speaker2: [00:21:15] The first the first 12 months, I think, is critical, I think that what I see a lot, as you see the subject matter expert or a visionary that doesn't understand product and they just they don't understand the importance of having somebody dedicated to the product, like a product manager, a real product manager who is supposed to be the voice of the customer. And so when you look at the data, it's a lot of there's like twenty three percent of the failures are dedicated to people that had a market misalignment or didn't understand their customer. And then if you dig into that, you find out that they didn't have a product on there. So they didn't have a voice of the customer and they were building something based on their vision, not based on what the customer wanted. And what you want to do is you want to get to a minimal viable product. And from that point forward, all of your product requirements should come from your own customers, not from your vision. I think that's the biggest the biggest thing I see, I agree, is that it's a challenge for the startup to really understand the needs of the product and make sure that that product is really achieving product market fit. But then on the other side, what is the challenge you see the investors face today? I think that the first challenge is that to get new investors to put money into startups versus investing into the stock market, it needs to be more predictable.

Speaker2: [00:22:40] And the only way you make it more predictable is paying attention to the leading indicators instead of just the lagging indicator. Lagging indicators are financials and leading indicators are what creates what's in the financials. So an example of that would be a lagging indicator would be this much this month's revenue and a leading indicator would be how many people were added to the pipeline? What's the conversion rate? What's the cycle time from contact contract, etc.. So those things are if you pay attention to those things, you're going to make the business more predictable. If you make the business more predictable, then you have more investors willing to play, because to them it seems less risky, less hair on the deals and that sort of thing. I think that that is. A substantial problem, the the outcome of that is that you have this huge failure number and that's what scares off a lot of investors, I think that has to be fixed to really grow for one. I think for investors, you know, the whole covered thing has changed a lot of things, there's a ton of money being poured into countries around the world, which means that there's going to be inflation automatically. And so you need to make sure that when you're making your investments, you're considering the inflation that's going to happen during the period of time that you're that you're sitting on this deal until it exits.

Speaker2: [00:24:08] Those things, I think, are really important to to make sure you make a mental note of. And then I think the other thing is that they need investors need to understand that when they're talking to an entrepreneur, they're talking to a practitioner. And it's a bad idea for an investor who went to some fancy school and learned about investing from Morgan Stanley or some hedge fund or whatever to go into a practitioner and start telling them what to do. A lot of times they get bad advice from investors who are giving them what they think is sound advice from a perspective that is removed from the business. Well, very good. Well, you see a lot of different sectors and applications out there in the market today, if you had to pick one or two, you'd think a really good opportunity for investors to pursue. What do you put at the top of the list right now? I think that token, anything that's in the range of boxing and tokens, especially boxing, using it as a register. I think is is a huge there's a lot of opportunity surrounding using Blockin as registered, not necessarily attached to coins, but just as its own entity. I think robotics are a huge market right now. I mean, they're using robotics for staking out houses and buildings and building developments instead of people walking around.

Speaker2: [00:25:30] And there's a ton of them for heavy lift drones that carry things from one place to another, that that whole robotics industry I think is is very big. I think that the other one is, is applications that fix problems inside of government or education. So for a while last year when covid was rampant, I would see probably 20 educational software platforms, just one after another, after another after another. And those things are there's just a ton of competition. But typically, if you're an entrepreneur and you see you're on to something, the chances are somebody else wants to do, especially if it's in the news every day. So I'd be looking for things that are like problems that are specific to a very narrow niche in the world and then focus on those, I look for things that are an inch wide, mile deep, inch wide means nobody sees an opportunity really deep. Does that answer the question? Absolutely. There's a lot of good things there, but Jane, another great applications and good advice for how you identify a good one as well. One last image that we have here. What else should we cover that we have in? I think that it's important that entrepreneurs know that this is the time like this is a there's money moving into the system. There are still a lot of problems to be solved.

Speaker2: [00:27:04] This is a good time to be an entrepreneur. There are still people out here, people say all the time, others, everything's been done. No, everything hasn't been done. I mean, this is this is not at all the case. There are deals to be done all over the place. So I would say that, yeah, you need to make sure that you focus on on problems. But there are a lot of problems. So just see every problem as an opportunity and then measure it. But look for great why I couldn't agree more. So how best for listeners to get back in touch with you. My website is Gregory Shepherd at sorry, Gregory Shepherd dot com. Or Bass Capital Partners dot com, my LinkedIn on there, you can see by LinkedIn and you can see all the other stuff, there's there's a lot of social media. We did a lot of social media. So there's a ton of videos and things like that for entrepreneurs to look into. If they're interested in funding, that would be Boss Capital Partners. If you want to learn about Boston, you go to startup science and if you want to contact me, then you go to Gregory Shepard dot com. Great, we'll put those in the show notes. Want to thank you for joining us today and hope to have you back for a follow up soon. Well, thank you so much for having me. I really appreciate it.

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