David A. Rosen of Acrelic Group

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin, I'm 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. Investor Connect is a 501 C three non-profit dedicated to the education of investors and strives for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website. Hello, this is Hall Martin with the Investor Connect Day, we're here with David Rosen, president and CEO at Acrelic Group. Acrelic Group is a strategic advisory firm headquartered in Boston, Massachusetts, with additional locations in Philly, Chicago, Cleveland and Tel Aviv. Their principles are experienced business owners, operators, executives and board directors who are focused on helping people and business achieve remarkable results. David, thank you for joining us.

Speaker2: [00:01:08] Thank you for having me Hall. I really appreciate your podcast and the topics are covering here. So glad to be here.

Speaker1: [00:01:17] Great. So tell us more about your background.

Speaker2: [00:01:20] I've been very lucky in my life coming from nothing to being a tech adviser for half of my career to the two fifty five hundred and the defence ten companies where I work on tech commercialization and. My, you know, facilitation with the these large tech companies has led me to over 40 M&A transactions in software hardware, electronics storage systems and telecom. And it's also led me into helping them create many joint ventures partnerships where they can fill in their gaps and leverage their strengths as they're looking to enter into new markets. And also even the options of green fielding a new business into to get into a new market as a way to achieve their longer term growth goals. So I've also been involved in just advising on what to do with intellectual property they own and sometimes just licensing it to the industry so that they may not participate in the industry other than royalties coming out of other people using it because they may not have strengths there, or it may not be a strategic value to them to be in that business per say, and that intellectual property revenue is something that can generate significant revenue in many cases. The other half of my career has been spent in leading businesses. I've spent time doing a couple of turnarounds. I took one business from $15 million in revenue and it was heading south from twenty two, and I turned that into one hundred and fifty dollars million business in less than five years.

I had hair when I started that job, and if you're not viewing this, just know that I don't have much hair left. And I've also founded started seven companies and so far I've had two and a half successful exits from them, and two of the companies are still in operation. And I still look forward to potential exits or potential growth for for both of those. I've also been a board member on nine companies and on two continents. And I'm also a strong believer in karma, where I believe that even when I'm deep down into a new startup or a new business or a turnaround, I still try and balance my time by being a mentor or a judge or a guest lecturer at universities and accelerators. So I've been involved at Rutgers Northwestern Boston University and others to help be an advisor in their startup accelerators. And then finally, on my free time, I'm an angel investor and I've invested in two accelerator programs that has given me a decent number of investments to follow, as well as seven separate investments I made as an angel investor, not as a lead, but as a follow on. And I try and stick to areas that I know well where I can add some value to those startups. So sorry to make a short story long here.

Speaker1: [00:04:30] So that's great. Well, tell us more about how do you help startups and growth companies?

Speaker2: [00:04:36] You know, right now our focus is on startups through middle market companies and by middle market. I'm talking about the lower middle market, those companies that are between 10 and two hundred and fifty million. And that's where our sweet spot is. Acrylic group as an advisory is involved in accelerating the growth or helping the owners of those companies kind of navigate in and around inflection points or crises that they face in their businesses. Or we help them create significant change where they may not have the current understanding of what change options are available to them and then how to go pursue them. But our principles are all people like me where we've come out of the C-suite. We've been owners and founders of companies, board members looking at strategic issues down to, you know, I'm a bootstrapped. And how do I make payroll next month? And so we act. As angel investors mentioned before, we mentor startups and accelerators and we are operating advisors to those growth companies, as I mentioned, and we can also some of my team members act as fractional functional experts where I've got CFOs of one of the venture capital groups that I work for in my career. He's involved in in working with growth stage through middle market companies as a CFO expert to kind of raise the maturity from typically a bookkeeping mentality to a CFO mentality without a company having to pay for a full time CFO and help them transition and find the right people to manage and understand what decisions they could be making better from a financial viewpoint. And so I've been all around the startup ecosystem, from software to hardware storage, telecom, semiconductors and enterprise software, so we selectively take on startups. But we're very, very selective in startups. We're a little bit less selective in the middle market companies.

Speaker1: [00:06:43] Great. And then what do you see is the challenge that start up and growth companies face in today's marketplace?

Speaker2: [00:06:52] Yeah, it's a great question. I don't think any two startups have ever been alike, but they tend to have. You know what I think of as six common characteristics that you'll find in the startup founders. One of them is that many startups are founded by technical founders, and therefore they have a challenge in getting intimate with their customers and being clear about the goals, needs and challenges of their customers. And the ideal customer profiles that they're looking for and that they have a fit between their product or service capabilities and the needs, goals and challenges that a person has, which is normally termed as the value proposition. So if you don't define who your market is, it's not very easy to understand what your value proposition is going to be to that specific market because it may vary from industry to industry or company size by company size. And so achieving customer intimacy and market intimacy is really critical. Again, probably the second issue is clarifying the value proposition. There's a lot of companies out there that are either trying to come to market as a platform or they're coming to market as a product, but they tend to look at very broad based value propositions, and they may be their value propositions may be more of a vitamin as opposed to a pain reliever. And unless you have a really tight pain reliever, when you're coming to market with something new and disruptive, it's not going to be easy to sell that pain reliever. And, you know, I've started up companies and close them down in the business plan stage because I couldn't find the pain relievers that were really necessary to create a value proposition that would be strong enough to compel the economics of the business. So I've reviewed probably six businesses I thought about starting and that I've shut down before even investing a dollar in. But I put teams towards understanding the markets, understanding the technology, understanding the value proposition and the economics of the business so that we can plan before we fire. I think a third challenge for a startup company is recruiting great talent and understanding the division of Labor and delegation of functional ownership to team members. Typically, I mean, I don't want to disparage startup founders, but sometimes startup founders, you know, especially when they're still in college or in their 20s, have barely managed their own lunch money before they put themselves in a position of managing three founders and trying to figure out who's going to do what, to whom and when as a startup. And so it's really important that that these startups and the teams understand that they should divide and conquer wherever possible and understand each other's strengths and weaknesses so that you can be focused on the right things at the right time and the right role, as opposed to putting the wrong people in the wrong role. At the other end of the spectrum.

I also think, again, I tend to be very market or customer centric, but creating a North Star target is really important and then understanding the path that gets you to that North Star, but also understanding the big challenge is being nimble on your way. It's always been my experience in looking at companies for acquisition or in my own companies that what I expected to be a year from now is completely different when I get there, right? I think a fifth issue is I think I'm repeating myself, but it's also are you really defining a pain reliever? And one of the venture capitalists that I worked for a long time ago has always gave me something that has sticks in my craw and my thinking every day. And that's the fact that platforms are earned. They are never born. And it's really up to the startup to stay focused very singularly on the features and benefits that will drive the greatest value to your ideal customer profile market segment and your target market segment so that you can get into the market because if you can't get into the market, you'll never sell a platform. You need to get into the market and get some successes by unhinging people, which is very difficult to do or unhinging solutions that might currently be there or ways of doing business. And I think the last challenge I think startups have is that if if it's a startup with a very sexy value proposition and a very good story and people are very excited about it.

One of the things that they're going to do is they're going to get a lot of advice from their friends, from potential investors, from colleagues, professors, everyone. And you know, when you're early in your career and you're trying to please people, if somebody is giving you advice to go do something, you'll try and please them by going to do what they suggested you do. But the reality is you're going to get a lot of people giving you advice from their perspective that may not work for you. And therefore you have to learn as a founder that your job is to filter out those things that are going to be most helpful and applicable to you, as opposed to something else that somebody suggested. That sounds great. But it may might not be doable by you or your team or the approach that you're taking the business or requires too much of a pivot from your current momentum. And you have to learn to be selective and learn. Do I listen to 10 percent of this person or do I listen to 80 percent? So you've got to keep it in context to the capabilities that you're bringing together and the competencies that you have and your ability to execute on things and not try and please everyone and do what they ask you to do. Is that does that make sense?

Speaker1: [00:13:06] Yeah, no, that's absolutely true. You know, that's just don't want people pleasers, they want someone that's still running a good business. Investors do look for coach ability and so engaging with it at some level is pretty important. But I agree you have to filter through it because you will get conflicting advice. What do you do with that?

Speaker2: [00:13:26] Exactly. It's like putting five photographers into an all white room, and you never get two photos that look alike. There you go.

Speaker1: [00:13:36] So how does it start to prepare for this challenge?

Speaker2: [00:13:39] It's really the reverse of what of the challenges I mentioned, but spend time with buyers, decision makers, understand their risk profile, understand how they get compensated, understand what the profile of their organization is. You really need to understand everything you can about the buyer and what's going to create the opportunity for them to choose your solution over embedded solutions that might be there or solutions that their own I.T. organization or their own manufacturing or operations says that they can take care of. But it's really the more time you spend being intimate with your customers and knowing where they come from, you will always survive. And as long as you're nimble and follow that, I think the second thing is therefore bounding it and bounding those markets by your target market, but understanding the subset of the serviceable and the universal market that you're participating in. You can't. And you know, I coach a lot of college MBA programs for business plan competitions, and I always say the same thing. You can't just say I'm going to get a certain minor mixture of the marketplace as my market share, and that's going to make me a big business. It's really understanding how you're going to unseat what the alternatives are out there and how you're going to create an economic value proposition that becomes a no brainer so that the customer just imagines themselves sitting on a beach sipping mint juleps. I think another important thing is mapping the product features to and benefits to the persona, really understanding the intersection between the customer and your capabilities and what's in the middle that are those three or four things that become a no brainer for them to think about and to articulate to their teams about why they want to spend the capital and change the way they go to business or go to market themselves because of your software or your solution or your service.

The fourth thing is really understanding that when you're scaling a company and you're going to market that the founding team of one, two or three people can't have all their names in all the boxes, they need to understand what boxes they don't do well. And when it comes to scaling the business where you need to have a commercial unit of a product versus a prototype versus an engineering sample that they've got the right commercial unit that's been validated and tested, and that they have people who have worked in production who can help them understand how to deal with supply chain problems like we have today and why a lot of companies products are sitting off the shore of Los Angeles today and not getting to market. And so it's really knowing what boxes are critical for success and filling them in with people who can be dedicated to that and do a great job instead of doing a good job. And that's when coachable teams are really known to succeed.

The other issue is that there are four things I look at in investments for myself or for others. One of the people. The second is how intimate and understanding of the markets are you? The third thing is, how well do you understand the technology and product and service that you're bringing together in terms of its viability and do ability? And then the thing between the most important item between the product and the market, I'm sorry, the market and the product is are the business economics, because if you can't produce a product with, let's say, 25 percent or 20 percent cost of goods sold to a market, then how are you going to compete in that market? When you look at a lot of these Kickstarter projects, you end up having, you know you raise a million dollars. For some number of customers, let's call it a thousand customers. And then you spend a million, ten thousand to create the first products and get them to market. That's if you get them to market because a lot of startups haven't gotten their kick started products to market. So if you're spending more than the revenue you're taking in, the rule of thumb is that if you've got a manufactured product, you should be at twenty five percent or 20 percent. Cost of goods sold so that you can have other things like sales and marketing added on to your expenses in the business.

So understanding that holistic view of the business having an economic view of the business is really critical to know, especially when you go from one customer to five customers to 20 customers to one hundred customers or a thousand customers. There's different economics required to get you there, and if you don't know your business economics, you're going to get yourself in trouble. The last one is just very simple. It's when I've done due diligence on companies for myself again or others. I always look for the clarity of strategy and an understanding of how the business makes money. And what I find alarming is when you talk to the top three or four people of a business and you ask them what business they're in and they give you, those four or five people will give you a 10 to 12 answers. You know, you've got a problem, whereas the ones that are asked these four or five people and you get two or three answers, that's when you know that they're communicating effectively, that they're pivoting effectively and they know what business they're in and how they're making money and they're consistent and that they're acting like a group that has greater value than the sum of the individuals. And that's where communications comes in and being really clear about, Hey, our North Star target moved, you know, five degrees, so we have to be nimble and pivot three degrees now and then two degrees later.

Speaker1: [00:19:44] Right. So who should the startup recruit to help with these challenges?

Speaker2: [00:19:48] I would say there are so many different accelerator options out there that are very, very valuable to startups in terms of helping them understand those four pillars. I talked about people, the markets, the business economics and the product technology viability and all the things around it. Whether it's managing the cap table and understanding what happens when you take an investors or how do you find your product market fit? All these accelerator programs are geared towards helping some of them. You pay them for the privilege of being in their program. Others will fund you with money to be in the program and take a portion of your equity as a part of doing that. But either way, I would seek those accelerators out because they also keep an ecosystem of very smart people around them who have typically been there and done that. I would also look to bring on advisors that can help you in some of the gaps you have that you may need to fulfill, whether it's how to do business with large companies when you're such a small company. A lot of people have that fear. I've never had that fear, and I started my first consulting business management consulting business when I was 22 years old.

And but I did it because I brought very experienced gray haired people into the situation to validate the industry understanding, and I was very good at process. So the combination of the industry expertise and the process could make the president of an IBM business unit feel comfortable that we understood what it was going to take to have him or her present to their board and get X amount of capital to go, do an acquisition or to go do a joint venture. So I would look to fill in gaps with smart people around in almost every city today in the top 200 cities in the country. You can find startup accelerators and so wherever you are, there's typically some sort of entrepreneurial groups that you can reach out to and find. And I think there's other firms out there that will help you for a fee to get to market and help you understand where your gaps are and help you understand how to organize effectively and how to be more customer centric. But you have to be careful because it's hard to afford that when you're bootstrapping or when you're when you have limited capital for your business.

Speaker1: [00:22:14] Right. So what are the must dos for the growth company out there? What should they be doing different from a startup?

Speaker2: [00:22:21] Good question. I don't think there's any better way to succeed in a business without getting more intimate with your customers and understanding who they are and how to reach them expeditiously. You know, it's about time to market, and I think growth scaling companies need to understand that in some cases they may be thinking locally instead of thinking bigger and thinking nationally. And so is their objective to create a pizza restaurant in their town or maybe a couple of pizza restaurants in their town? Or do they want to create the next national chain of pizza parlors around the country? And so you really have to grow your magnitude and understand what you're trying to target and how do you get there? Because there's many different ways to get there. You know, in the restaurant example today, you've got

all these shadow kitchens that you can hire to create a virtual presence in every city and have those kitchens, you know, deliver your food or product to the local market without having to have a single retail store. So think about that. You know, you've got these shadow environments that can give you a complete operational capability just by creating some relationships and you can have a nationwide presence. You know, same thing with coal packers that are doing food delivery. It's there's Colt Packers in almost every town now. And so some of these companies have realized that they can rely on those cold packers to do their, you know, lettuce shredding and other things like that. So there's different ways to get there. And it's not always it doesn't always have to be that local local approach for growth stage company. Again, it's about bringing in the right people for the right role.
So if you need the cookie cutter your approach and then you need to train what kind of training people do you have? Do you have trained the trainers that are coming in so that you can replicate what you're doing in one place and replicate it in 100 places at a time by having a good process that's easy to follow? Or are you going to just, you know, bring everybody back to your central location? Train them at a very high cost and then send them back out in the world and have no customer service or support for them.

So again, it's about understanding the roles that are required to achieve that North Star and how you get there. That's really critical where a lot of people under invest, you know, in many companies that I work with that are physical product based, they tend to there's a tendency to forget about customer support and service. So all of a sudden you're halfway into the build of a company. And I would ask the question like, So who is going, how are you going to handle warranties? Are you going to put a reserve aside to be able to have spare parts that go out to the product? How are you going to get those spare parts out there? Who's going to answer the phone to then create a trouble ticket? And then that troubled ticket goes to some unknown service provider that's going to go out and install that new product or part on that system. And you would be surprised all how many people I've seen that are just sitting there looking at me bug eyed, like they had no idea that they had to do that.

Speaker1: [00:25:47] Yeah, it's amazing what they learn as they go, so. So where do you see companies under invest?

Speaker2: [00:25:55] That's a good question. I don't think they spend enough time on market validation, and I keep repeating that because I I do see a lot more companies that are technology led or expertise lead, and they think that somebody wants something that's going to do three times the amount of capacity that something's doing today. Well, that's great. But when you start looking at the thing that is doing three times less, there doesn't seem to be a market for those things. So why would there be something for something that could do three three times more when you haven't validated the market? So I think it's it's really important because a lot of startup founders will put themselves in as a proxy for their customer base and they'll say, Well, I know this customer base really well, I know what they want, and therefore I'll make the final decisions. And I really start wondering if I should continue to work for people like that because they don't listen to the market. The market should be giving the feedback, and that's where you learn the most going forward, not from guesstimating what the market wants from your own perspective. So that's an underinvestment, and I think sometimes they underinvested people and we've talked about that a lot.

Speaker1: [00:27:12] Oh, OK. Where do you see companies over invest?

Speaker2: [00:27:16] Because you see a lot of companies that are technology led. They tend to over invest in technology and in the software industry, you have a different economic model than hardware, but in software, for example, at some point in time, you get the version 1.0. And your product is done, it just needs to be maintained, it needs to be grown as you get more users, but you never see development teams or design teams slowing down. And so they're working on new features and new functions without getting customer feedback. And so that's where they're over investing because they're investing in things that aren't tied back to one or two transactions, one retaining customers and getting them to love your product more or to helping you to acquire new customers in the capabilities that you should have, as opposed to those capabilities that you think people want, but aren't really demonstrating that they're helping you get lift. I think a lot of startup companies over invest in customer acquisition costs. They hire salespeople six months before their product is ready for, they spend significant amounts of branding and advertising on their brand without having a product available, or they believe that the brand is going to drive their sales, not sales people driving their sales.

Speaker2: [00:28:40] And so they tend to over invest in branding and marketing because in some cases they're either in an industry that they're just a small part of a multitrillion dollar industry like fashion where you almost need to spend one hundred million to get your brand out there. And maybe that's not the right choice to build a brand. Maybe you should be choosing to be really clear about your value proposition of your one thing before you create a brand. And so that again, is an overinvestment. And then finally, again, I hope I'm not sounding like a broken record haul, but you know, platforms are earned. They're never born. And so starting off with a broad product line with 10 features or benefits without being clear about the economic value proposition to a customer is over investing in that platform. Because if you don't penetrate new accounts and get in at a very focused level where you know you can unearth somebody else, then you won't get in so the platform won't do you any good.

Speaker1: [00:29:42] Right, so what do you do when you're short on the fundraise? Who takes the haircut and by how much?

Speaker2: [00:29:50] You know, I'm a bootstrap by Nature Hall, and I'm probably more proud of the customer revenue I raised than the equity revenue or equity capital that I raised. So for me, this is just a part of life when you have no money. You have to figure out how to do the most with no money. And so it's really important that you improvise and you be nimble. And you know, the same thing with corporate budgets. If you're running a business unit and you say you need 20 million dollars, you know you're only going to get 15 and you still have to figure out how to spend the 15, but you also know that they're going to ask for another million back before the end of the year because of some other business that's not doing well. And so you really can't even spend the 15 that you expect to spend. So same thing. You have to have that same mindset with your startup that whatever you can do, you can do if you get a million dollars and you thought you needed a million five. What things are you working on that's going to give you the greatest return to get the traction you need to get into that new market.
And so it's all about prioritizing. And it's all about clarifying for everyone that, hey, we're not doing items number four and five, we only have enough money to focus on one, two and three. So we're going to be the best one, two and three that we ever can and we're going to make that work and we're going to make up for it in the long run because the back story hall to a startup is very much that every day you're in business and you're making progress, your valuation increases. And so if you didn't make the money that you expected to raise, figure it out and see

what's doable with the money that you did raise and see if it can get you there. If it doesn't, then you have some other questions to ask. You know, do you put in more money yourselves? Do you take out credit card loans? Do you invest in it yourself and take more of a risk? But then you should get some sort of quid pro quo for taking that additional risk, and it should show up on your cap table somewhere. So that's kind of my perspective on fundraising. It's very helpful.

Speaker1: [00:31:57] Well, that's a good point. In the last few nights that we have here, what else should we cover that we have it?

Speaker2: [00:32:02] What I see the most is really about what I've been focused on is where software connects with physical products, and as we all know, China is, is really a place that has set up there. Twenty twenty five policy where 70 percent of their consumed goods or are or will have to come out of China. And so we have to start expecting that more manufacturing will be coming out of the U.S. and I think it's really important for people to understand that we can be competitive in manufacturing our own products and services, especially in the environment we're in, where it's all about mass customization and mass personalization. And that's going to require a variety of new manufacturing technologies, new supply chain thinking. And so there's a lot going on where we are still the largest consuming country in the world and manufacturing is moving back closer to demand. And so if those things are true, which they have been true, that more manufacturing is coming back to the U.S. And so that's one of the areas where we spend some time around manufacturing in the middle market because we believe that the opportunities there are just tremendous even in traditional more legacy businesses. So that's the only add I would add to this.

Speaker1: [00:33:29] That's a good point, too. So how best will listeners get back in touch with you?

Speaker2: [00:33:34] Well, they can always reach me on acrylic. Com's website, and we have contact us forms there and also has our phone number. And I'm pretty old fashioned. I still use the phone. I was joking about this with one of the top VCs here in Boston that he really uses the phone and prefers to have people call them. And so do I. So you can reach acrylic group at six one seven eight six five forty seven seventy. And of course, we're on LinkedIn at Acrylic Group and or David Rosen LinkedIn. And yeah, that's the best way to reach us. Pick up the phone or schedule time with us, even from our website.

Speaker1: [00:34:15] Great. We'll include those in the show notes. We want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:34:22] Thank you all, I really appreciate your time, and I'm sorry if I talked a lot.

Speaker1: [00:34:27] That was good stuff, and I appreciate you sharing it.

Speaker2: [00:34:29] Thank you. All be well and be safe and be healthy

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