Elizabeth Edwards of H Venture Partners

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 that 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 Investor Connect, the today we're here with Elizabeth Edwards, managing partner at Venture Partners Venture Partners is a consumer focused venture capital firm that invests in science based consumer brands. Elizabeth, thank you for joining us.

Speaker3: [00:00:59] Thanks so much for having me.

Speaker2: [00:01:01] Great. So tell us more about your background before investing in early stage companies.

Speaker3: [00:01:05] Yeah, so I have been a venture capital investor for 17 years now, investing all over North America, always from my hometown of Cincinnati, Ohio, which might be considered an odd place for a VC to be located. Definitely not a consumer. So Cincinnati is one of the number one top consumer test markets in the country, and we also have a good number of consumer and retail companies that are headquartered here, including Procter & Gamble, the world's largest consumer products company, and Kroger, which is the largest grocer in the U.S. So I got my start investing in early stage companies after a stint in strategy consulting, working for Deloitte Consulting, specifically on brands like Tylenol at Johnson and Johnson. So that's where I fell in love with consumer. That's also where I fell in love with venture capital because we were on behalf of Johnson Johnson, looking for technologies and startups for Jay and Jay to license and acquire. So I was just so impressed with the entrepreneurs and technologists out there that would empty out their IRAs, put it all on black, develop something truly disruptive and go all the way. So that's how I got into the business.

Speaker2: [00:02:23] Great. So what excites you right now?

Speaker3: [00:02:26] So we invest in science based consumer brands. Probably the most fun part of my day is learning about new platform technologies and all the major consumer categories. So talking to a lot of scientists and in some cases, even medical doctors, but definitely consumer executives that are taking a different approach to things like skin care, hair care, baby care, fabric care, food beverage, packaging technologies. So I love that aspect of what I do and also love trying all of the new products. So if you are ever in Cincinnati and happened by our office, stop by. We've got a refrigerator full of every plant based dairy product under the sun and just about everything else. So it is a lot of fun trying all of these different newly launched and newly launching products.

Speaker2: [00:03:18] This is an exciting time for product innovation. It just seems to be coming from everywhere and every which way. So it's cool to see all this stuff coming up and you're right at the middle of it.

Speaker3: [00:03:27] Absolutely, absolutely.

Speaker2: [00:03:29] Well, so you see a lot of startups in this CPG space and a lot of investors. What's your advice for people investing in startups in consumer product goods? What do you tell them to do before they write that check?

Speaker3: [00:03:41] Do your homework consumer has is a pretty technical sector, and a lot of people don't realize that you think, Oh, you know, it's it's skin care. How hard could it be or, you know, its beverage, how hard could it be? But I think it's really important to have category specific experts who are involved in the due diligence process. I don't think it's enough to have just a consumer person looking at a deal with you. If you are looking at a diaper company, you better have a diaper expert. If you're if you're looking at a haircare company, better have a hair care expert because each of these categories have their own technical aspects, whether it's the chemistry, the manufacturing process, the supply chain or the category aspects when you're talking about retail. So who are the dominant players? Why? What are buyers looking for? What are consumers looking for? What's an acceptable price point? What is the margin profile look like? The regional aspects of different categories. So very, very, very important to tap into those category experts and also to make sure that the startup itself has a management team that is also well versed in those things. So we we tend to stay away from companies where there's not an experienced set of consumer folks in the management team because that's typically a red flag that gee whiz. Are these folks going to know how to sell something at Walmart or Sephora or Target? Because that's pretty key to succeeding in this business?

Speaker2: [00:05:26] Well, great. Then on the other side of that table, what's your advice for people running startups in the consumer product goods sector? What do you tell them to do before they go out to raise funding?

Speaker3: [00:05:35] Yeah. So, you know, I think it's important to live in the present and not necessarily follow the playbooks of companies of the twenty fifteen vintage. We saw a slew of consumer products companies that were launching direct to consumer and really trying to stay direct to consumer as a business model and those that launched kind of pre twenty sixteen. So from twenty ten to twenty sixteen, you saw everything from Dollar Shave Club to Glossier and the like launching building a base of business in a time where Facebook and Google ads were relatively cheap. That is completely changed, and startups today, I think, need to really be careful not to try and copy an outdated business model. And it might not seem outdated because she was as glossier outdated. No, the brand is definitely relevant. It's just that that business model is probably one that's not going to work for the vast majority of brands. And so brands that are these days, brands that are omnichannel and being very careful about their Facebook spend. My preference is to say don't even get into it. For a lot of brands, spending on Facebook and Google can be a dumpster fire when it comes to cash in that cash could be allocated and much higher returning channels.

Speaker2: [00:07:06] Great. Well, let's talk about the state of investing in consumer product goods. How do you see the industry evolving from here?

Speaker3: [00:07:13] So when I started in this business or a very few consumer focused investors and there still are, so I think the venture capital landscape is evolving. I think COVID in particular has made geography almost irrelevant. And so that's propelling a trend that we are already seeing pre-COVID, which was institutional investors were eager to diversify outside of Silicon Valley. Valuations of companies were just getting out of control. This was even before the massive quantitative easing that we're seeing right now. So valuations were were high then they're higher now. But one of the things that I think happened late is a little bit more diversification. Hopefully, hopefully, and we'll see more of it in terms of industry for venture capital because there is an intense concentration on tech and biotech really to the venture capital industry's detriment, and that we were overpaying for the longest time for tech companies with zero revenue and was making it really challenging for funds to return good solid returns. But now I think with code, we're seeing a little bit more geographic diversification, which is always great, and I hope that will also lead to more and more industry diversification. So obviously there's you know, you can look to this look no further than supply chain. There are a lot of opportunities and logistics right now, but in my. Neck of the woods and consumer. Consumer only gets about three percent of venture capital dollars, even though it's 20 percent of our GDP. Seventy five percent of world's venture capitalists in Silicon Valley, almost all of it is focused on tech and biotech. So there's definitely room to see more investment in some of those high impact sectors like consumer that have such a big impact on human health on the environment you think of. Like everything that ends up in our dumps in the middle of the ocean and our our rivers and our bodies, that a lot of that is the consumer sector. So there's a there's a pretty big opportunity for impact in the sector, so a lot of need for innovation.

Speaker2: [00:09:23] Do you think the venture capital standard model is the right fit for most consumer companies? For some it is, but for others, do you think there might be better models than just the state VC 10 year cycle fund?

Speaker3: [00:09:36] Just like for tech companies, I don't think that every tech company is a venture bankable business and same thing for consumer. I think, you know, one of the things one of the criticisms that we'll see in the consumer sector is, Oh, is it scalable or how big is it? Yes, it's huge. And yes, it's scalable. Ever since the industrial revolution, the consumer sector is pretty scalable. If you look at P&G, they can make tens of thousands of Pampers diapers a minute. So it's highly scalable and there are a lot of really high margin parts of the sector, others lower. But companies that have truly disruptive technologies where they're coming to market with is just noticeably different for consumers. Solving those big pain points, doing something in a new and different way. Those are the especially ones that are better for human health, better for the environment. Those are the brands that are going to win. So that's what we look for. So we put that lens on it. And so, yeah, the vast majority of the thirty thousand brands that are early stage consumer brands are not going to fit that particular lens. However, there are plenty that do. So those are the ones that we look for.

Speaker2: [00:10:54] Great. So what you think is the biggest change we'll see in venture funding for CPG deals in the coming 12 to twenty four months?

Speaker3: [00:11:02] Well, you know, I think there's going to be a lot more focus on supply chain when we look at the the questions that we ask companies pre-COVID and now the questions that we've incorporated post-COVID, there's a much bigger emphasis on supply chain and capitalization. And the reason for that is whether it's Halloween costumes, you know, Christmas presents or the skin care products that you use every day. The things that we're sourcing from overseas. Yes, we're seeing supply chain, but even things that are outsourced here in the United States. So the terrible winter storm that hit Texas impacted foam production. So things foam for pillows, foam for automobile seats, furniture. And so when we are talking to companies today as investors, we have a lot more focus on that particular area of risk because it's a big consideration. If you're out of stock, you can't make money.

Speaker2: [00:12:10] Right, so let's talk about your investment thesis and what you look for. What exactly is your thesis and what's your criteria for making an investment?

Speaker3: [00:12:19] Yeah. So we invest in very early stage consumer brands. These are brands that are zero to 10 million in revenue. Ultimately, we're trying to get them to 10 to 50 million in revenue and sell to a strategic. So we're looking for those brands that have a noticeable difference that are in in large categories. So when you think of a target, you're walking through the aisles of Target. There, you see all of the major consumer categories represented food, beverage, apparel, personal care, beauty, fem care, baby care, fabric care, home care, all the cares. And so those are the categories that we invest and they are billion dollar plus categories. Most of them, in fact, are $50 billion plus categories. And that's really where we focus our energies on the platform brands and very, very large categories. But where there are some disruptive technologies, so it could be chemistry, materials science, manufacturing, packaging, and we're looking for those brands that are harnessing Mother Nature to create a better outcome for us as human beings. So the brands that are in our portfolio. I would say the vast majority of them have quite a bit of IP.

Speaker3: [00:13:35] So patents associated with them and all of the ways that I described before, and they are brands that they're going to mostly 80 percent of consumer brands. Their exit pathway is a strategic exit, and a lot of companies that launched sort of in that 20, 10, 20, 15 timeframe are looking to go public. That's, I would say, a riskier pathway and maybe one that's not as profitable for investors. So if you're raising a billion dollars of venture capital and taking 20 years to IPO, it can be difficult to convince Wall Street that your standalone CPG brand or even your collection of brands is something that deserves to be a standalone, publicly traded company that's going to compete against P&G and Nestlé and Danone and all of those. So the brands that we're investing in, they're getting there. They're proof points early and direct to consumer. And then very shortly after that and major retailers. So building really deep relationships with a few retailers to demonstrate to incumbents that, hey, there's a pretty interesting brand, a serious threat here that is probably a prime acquisition target for you.

Speaker2: [00:14:55] Great, you talked about some of the challenges started face already in CPG, around direct to consumer, but aside from that, what do you think is the main challenge you see consumer product goods companies face when they're launching their business?

Speaker3: [00:15:08] It's breaking through the noise with the advent of direct to consumer and just a huge growth of car manufacturers, so the growth in car manufacturers has been. And just that as a business model, it's been significant over the past twenty five years. So it's lowered the barrier to entry for new brands, creating a lot of noise in the early CPG space. So skincare is is one category that's huge, very saturated. And I say, Oh, it's the oil of the moment. Brands like oil is way oil at the moment is, hey, we've got a great plant based something rather that we blended in our kitchen and then we took it to manufacture. And now we're selling it on the shelves of Target or CVS. There are so many of those thousands of those then becomes difficult to reach critical mass. So this is why I say you have to have something that is noticeably different and what I see noticeably different. I'm talking like a pain pill, not a vitamin, a cream that you put on your skin and takes care of the skin issue. Or in the case of we have an investment in a incontinence brand as a novel super absorber. So this is something that is launching here next month. Going to compete against depends and always, and it's more absorbent than those brands, so faster to absorb. That's a noticeable difference for a consumer. And so breaking through the noise is difficult and can be really expensive. You if you're if you have thousands of brands all buying the same terms on Facebook and Google, it gets pretty expensive for these brands to launch, right?

Speaker2: [00:16:55] Then what do you find is the main challenge the CPG investor faces in working in this space?

Speaker3: [00:17:02] Yeah, I would say sorting through that noise. So, so yeah. And it really depends on on the investor and what they're looking for for us. We're very picky about technology. Our investors are domain experts and all of the major consumer categories. And so when we do due diligence, we're going fairly deep with that R&D person on the other side of the table. And so we want to know that this is something that's not easily replicated that really is going to stand the test of time. And we have that, I would say lens that we look through. It also has to be a successful business because a successful product on its own is not enough. Then the management team and in fact, on our scorecard, the management team is the highest weight on our scorecard, even over that product. So and a management team can take a B product and still make a great business, but be management team will struggle even to take in a product all the way. So that finding those really experienced teams can be a challenge.

Speaker2: [00:18:18] Well, you see a lot of different segments and applications in the CPG space. If you had to pick one or two that you think are really good opportunities to pursue today, what would you put at the top of the list?

Speaker3: [00:18:29] I like those unsexy categories that people don't really think about. We just made an investment in continence company right after that, we made an investment and a menopause technology company as supplements and topicals to help with the corf or symptoms of menopause. It's called Kindra. And right now, we're looking into problems again, and I mentioned we're looking for more of a painkiller than a vitamin. So brands that are not necessarily brands that you would think of like, oh, it's like the cool fad type brand. Now these are brands that are solving real, real pain points. And so in many cases, you're finding those brands not only in a Sephora or an Ulta. You might also see brands like what we're looking for, and I see these a Walgreens. So we love those categories where people have a problem to solve and they're going to spend a lot of money over a long time solving it.

Speaker2: [00:19:37] Great. Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:19:41] Yeah. I think one of the things that I love talking to founding teams about these days is what are the creative risks that you're taking when you think about your marketing channel strategy. So, you know, diversifying outside of Facebook and Google, and one of the things that I think it's important for founders to consider is everything that's old is new again. And so we've seen brands like Madison Reed and Ball and Branch do really well in platforms like XM Satellite Radio. We're having traditional radio. We've seen brands that are crushing it on direct mail. Now I say that and of course, the Post Office just raised rates not only for direct mail but also for shipping. So we'll see if that ROI still holds. But the other thing I think is really powerful for brands of all sizes is partnerships with adjacent brands. So we have a lot of these in our portfolio where where we have three or four brands that are all trying to speak to that over 40 woman great. You know, they're working together and working with other brands, even outside of our portfolio to share those customers. So I think you've got to be really scrappy. You have to spend your marketing budget like you don't have any money, figure out what works and scale it. And it's really important not to outspend your learning, and I think it's really easy to do that. Some of those platforms, like Facebook and Google.

Speaker2: [00:21:12] Great. So how best listeners get back in touch with you?

Speaker3: [00:21:16] Go to our website. So our website, whether you're an investor or an entrepreneur, we've put a ton of content on there. We have webinars, we have articles and resources and a real deep dive on what we're looking for. And if you want to pitch us and go to the Pitch US tab on our on our website that actually goes to our entire investment team. So it's asking all the questions, all the burning questions. And same thing for investors. If you're interested in learning more about our funds. So that website is W W W Dot H Dot Ventures, right?

Speaker2: [00:21:56] 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.

Speaker3: [00:22:01] Thanks so much. Really appreciate it.

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