

Karen Zelnick:

There has never been a more true axiom in the startup world than this: the only constant is change. And when things need to change, it's up to the founder to get it done. Today, we're talking with CEO and founder, Rachel Nilsson of Rags and investor, Curt Roberts from Kickstart to give you both sides a Perfect Pitch. What is Perfect Pitch? It's a podcast from Kickstart that reveals the minds of both investors and entrepreneurs throughout a startup's journey. So whether that's uncovering what everyone's really thinking during a startup pitch or learning how entrepreneurs like you have managed their first major roadblock. Perfect Pitch offers an honest, quick and tactical guide to help you on your startup journey. I'm your host Karen Zelnick and you're going to love today's guests. First up, Rachel Nilsson of Rags. Hi, Rachel.

Rachel Nilsson:

Hello.

Karen Zelnick:

We're so excited to have you here today. So we're going to get into the details of your founding story in just a second. But basically in summary, you took the pain point of parents having to get their kids, sometimes multiple kids, very wiggly kids, dressed and you solved it better than anyone else out there. So I'm really excited to dive into that. So glad you're on the show today. Thanks for joining us.

Rachel Nilsson:

I am so flattered to be here. I listen to the hook and it's like, I can't wait to listen to all the other episodes. This is so fun.

Karen Zelnick:

Excellent.

Rachel Nilsson:

Hopefully everyone else feels the same way.

Karen Zelnick:

And then returning to the conversation this week is our investor from Kickstart, the guy who makes things happen, Curt Roberts. Curt, thanks for being here again.

Curt Roberts:

Thank you, Karen.

Karen Zelnick:

For the people who are just joining us, give us a quick rundown of your investment focus.

Curt Roberts:

So I tend to focus on companies that are in the space of consumer products, marketplaces, health, technology, and general business software companies.

Karen Zelnick:

Awesome. We're really excited to have you here. But you also join companies on motorcycle trips too, do you have one coming up?

Curt Roberts:

I do. We've got one coming up in two weeks.

Karen Zelnick:

That's so exciting. I love that. That's-

Rachel Nilsson:

Curt has this need for speed that is absolutely mind blowing. We've gone skiing before and it's like, you see him at the top and then you get to the bottom and he's just been chilling for five minutes. It's unreal.

Karen Zelnick:

And then he's just like what's going on? Yeah-

Rachel Nilsson:

So I'm not surprised [crosstalk 00:02:18].

Karen Zelnick:

Amazing mountain biker too. I've heard you also love speed and you're an amazing mountain biker.

Rachel Nilsson:

No, I can do the down, but I get smoked on the up. We already know this.

Curt Roberts:

I wait for her at the top and she waits for me at the bottom.

Rachel Nilsson:

It's a good team.

Karen Zelnick:

So it works out well, it evens out.

Rachel Nilsson:

Totally.

Karen Zelnick:

So let's just dive right into the discussion. Rachel, why don't you give us a little bit of background on your founder story? What is Rags, where did the idea come from?

Rachel Nilsson:

Yeah, I mean, you nailed it. It's a kid's clothing line. And my biggest focus in the beginning was just, how do I create clothing that is comfortable, that functions well for both the kid and the parent. And really there was nothing in the market that was like Rags. So I made it myself literally, in my parents' basement, out of my husband's t-shirt and put it on my toddler and posted it on social media. And back then social media was like Wild, Wild West. Everybody saw your content. And I started seeing this reaction with other moms and I knew immediately, there is something there.

Karen Zelnick:

You're on to something there. And not only have you made a really amazing product, but you also have this amazing community of your consumers who interact with each other and it's like a collection. So I love, that you've not built only a product but a community around that to support that. I think that's really impressive.

Rachel Nilsson:

Right. That was definitely secondary. I didn't expect that to happen, but it's also been just such a cherry on top.

Karen Zelnick:

That's wonderful. So what was the funding process like for you?

Rachel Nilsson:

The funding process?

Karen Zelnick:

Yeah.

Rachel Nilsson:

Oh, wow. We're just going to jump right in. Okay.

Curt Roberts:

Yes we are.

Rachel Nilsson:

Let's see. So I actually did Shark Tank and that was really great for Rags. And I knew going in that we were in a really a cash position and I knew that the story would be intriguing. And I knew that the product was something that was interesting for people to watch. I wasn't fully sure I wanted the money. It was really honestly more just the network that I wanted to tap into. And obviously, when you go on Shark Tank, you're tapping into some pretty incredible networks when you're dealing with those Sharks. And so at the end of the show, we talked back and forth and they did their due diligence and I did my due diligence and they actually came back and offered me more money for less of a percent in the company.

Karen Zelnick:

Oh, wow.

Curt Roberts:

Who read your offer? You might mention who read your offer.

Rachel Nilsson:

Robert Herjavec. I chose Robert mainly just because I saw that he understood the vision of the brand. And that is obviously what was important to me and still is important to me. And we were having these conversations and really the bottom line was how much time could you give me, can I tap into your resources and your network? And then I also call people that they invested in as well, which is shocking because nobody had ever done that. Nobody had ever asked, "Hey, can I talk to the other people?"

Karen Zelnick:

Really?

Rachel Nilsson:

Yeah. And so everybody that I reached out to, it was like, "Hey, if you don't need money, I wouldn't go that route," because they're so busy. It would be really naive of me to go in and expect that Robert Herjavec is going to get on the phone with me anytime I need it. And that's really what I was craving. That's really what I needed. We parted ways and I ended up being really great and we got the exposure and I think it was ranked one of the best pitches on Shark Tank-

Karen Zelnick:

Of course, it was, that's not surprising. Yeah.

Rachel Nilsson:

It's like purple hair, weird mom. They got their great ratings. And we benefited because we got good exposure. And I learned a lot. It was really scary. So it wasn't until seven months later where I was at an event and I met Jeremy Andrus, who is the CEO of Traeger. We just started talking about Rags and the business. And I could tell that he was genuinely intrigued. At the time, I really didn't know who I was talking to. Jeremy is a consumer King and he understands that business and he understands branding. And I think it was almost like a blessing that I didn't know that because I was very unfiltered and it was really natural. And so we just stayed in touch and Jeremy at the time his wife was pregnant with two twin boys and it was kind of perfect because once she had her babies, I was able to-

Karen Zelnick:

A package of Rags arrived at the door.

Rachel Nilsson:

Right. Yeah. He was in that same phase where he understood just dressing a kid could be annoying and stressful. And there was really nothing in the market that functioned like the RAG did. So it naturally evolved that relationship. And finally, I approached Jeremy and was like, "Hey, I want you to help me. Can you help me?" We battled back and forth because he wanted to invest. And I was like, "Whoa, I don't know if I want to take your money." It was like, I know that I'm in a healthy cash position, but I also know that when you take money, it gets really real. And I wasn't totally sure what I wanted to do at that

point. And so I think Jeremy said, "You are probably the hardest person to close." So Jeremy actually is really close friends with Gavin and Curt and the Kickstart crew. And they introduced me probably two weeks prior to closing.

Rachel Nilsson:

And I remember Curt coming down and Gavin coming down and the rest of the gang to the office, I spoke to them about Rags and it went well and obviously we're here. So they wanted in. And I was like, this is like another investor that I have the answer to. That already was stressful for me. And then bringing in Kickstart, it was unexpected. But the first year, since we had brought Kickstart on, it was like, wow, they're so invested and so involved in a healthy way and so willing to help that it hasn't been investors being big, scary bosses.

Karen Zelnick:

Who filled that need of the relationship, the network you were hoping for, with Shark Tank.

Rachel Nilsson:

That's why I did it. And then obviously I think as an entrepreneur, you're faced all the time on the edge of this cliff where it's like, you're going to jump. I have never raised money. I have two great guys with an unbelievable network. I'm going to jump and see how this goes.

Karen Zelnick:

That's awesome. Curt, were you immediately interested in Rags or was it immediately apparent that you wanted to invest in Rags?

Curt Roberts:

It was. At that first meeting, I think we got some sense about how crazy Rags' customers are, like truly crazy. Rachel showed us a video of some feedback from some of her customers. And we also got to see some pictures that her customers have taken of their collections of Rags sitting on bedroom floors at home.

Rachel Nilsson:

Which filled rooms upon rooms, right?

Curt Roberts:

Literally have people who have hundreds of these things for one child, right?

Rachel Nilsson:

It's amazing.

Curt Roberts:

So it's obviously like cocaine for moms. And so the fact that that was so crazy and that we were so impressed with Rachel and Rachel's vision for the business, it was a pretty easy decision.

Karen Zelnick:

And Rachel, it must have felt really good as a founder. Did you love all the interests that everyone had in you?

Curt Roberts:

Yeah. I think at the time I was super naive and this whole world was just so new, but that is like immediate validation.

Karen Zelnick:

So now you've got venture partners, your business is growing and scaling. As a CEO, what came next for you? What needs did you identify within your company?

Rachel Nilsson:

Oh my gosh, there's so many needs. I think the biggest thing for me was team honestly. And I would say still in the phase that we're in now, we're still so little, that team is such a big deal. We have to have all stars. We have to have starters. We can't have bench players yet. We need everybody to be a starter. And I would say that has been the biggest challenge and also something that I've seen once you hire well, you can scale so much quicker.

Karen Zelnick:

So you were looking to bring people onto your team. Can you tell us about some of your first hires and we'll get into lessons learned with building a team, but can you walk us a little bit through that process?

Rachel Nilsson:

Yeah. I mean, first hire is obviously when you're a startup and you're working in your basement, it's going to be family and friends. But I would say the first real hire was maybe a couple years in, and absolutely a million lessons learned. It's almost like one of those things that you don't want to learn, but you do, and you have to go through it in order to be better. And it can be super painful, but it also can be really rewarding too, it gives you almost this confidence that you're really do know what you're doing to where-

Karen Zelnick:

So sounds like there were some real problems that required some adjusting. Do you want to talk us through what that looked like a little bit?

Rachel Nilsson:

I'm young. And this is like the first real business one too. I have investors now. And I think everybody suffers with a little bit of imposter syndrome and the longer I've been in business and the more I've talked with people that are really successful, it's almost shocking to hear people that you look up to say, "Oh yeah, I deal with the same thing, I'm such an imposter."

Karen Zelnick:

Yeah, everybody.

Rachel Nilsson:

And I still would say, I struggle with that, which I don't think is a bad thing. I think it will constantly be pushing me.

Karen Zelnick:

Which is so funny because Curt, to hear him talk, you're the most amazing CEO and you are. So it's funny that even you still deal with imposter syndrome.

Rachel Nilsson:

All the time. It's like-

Karen Zelnick:

So it's a lesson for listeners I think, that everybody will deal with that. And there's a way to keep moving.

Rachel Nilsson:

It's a real thing. And I think I'm getting to a point now where I just want to use that to my advantage. But you hear as you grow that you want to hire people smarter than you and I have zero problems with hiring people smarter than me. I love to get people in there and let them go. And not only does that make them feel empowered, but it also gives me freedom to go and do what I'm really good at. So I made my very first executive hire and it was one Uber nerve-wracking, because suddenly you're paying a lot more for somebody. But also I was so excited to have somebody that was passionate, that I felt was really smart at the time, that was kind of grasping the business, that had more of a leadership brain than the people that I was currently surrounded by. So in the beginning, it all was very exciting and it was a fun, cool, new thing.

Rachel Nilsson:

Things started to get a little dicey I think when I started to realize that this person wanted more than just to be an executive employee. It was almost like they wanted so badly to be the CEO of Rags, where I knew that would be detrimental to the company.

Karen Zelnick:

Right. Yeah. And Curt, what was your perspective on this?

Curt Roberts:

I could tell from the very first meeting that that dynamic was developing. And the way it evidenced itself is we, as Rachel mentioned, we went down to Rags' offices to hear about the company for the first time, there were several of us from the Kickstart team. The two people there were Rachel and this executive that she had recently hired. Throughout the course of the entire time together, I would say he took 90% of the airtime. And Rachel was really only allowed to comment from time to time. And the impression I walked away with as we left was that this person was either the CEO or Rachel intended that the person would be the CEO because there was almost no other conclusion we could draw by the dynamic we saw in that meeting.

Karen Zelnick:

Interesting

Rachel Nilsson:

When Curt talks about it, it's laughable.

Karen Zelnick:

Did your blood boil a little bit?

Rachel Nilsson:

It's almost like, I think I just have no ego almost to a fault. It was like, "Oh, well, if that makes you feel important and if that's what you need to feel important go for it." At the end of the day, I know where my value is.

Curt Roberts:

Here's what's challenging about that though Rachel, we invest in founders. Businesses when we invest are small, most of the best days are yet to come. And so I'm looking, and I think this is true of every investor, really looking for those signals to say, is this a person I want to back? We came to the meeting wanting to make that assessment about you and we didn't get it.

Rachel Nilsson:

Right. I also think that, that was a lesson learned in that as the entrepreneur and no pressure, entrepreneur, but it's true. It's like you, especially in the stage that we're in, you really are investing in the leader of the company. And I also think, shame on me because that should have been very obvious to this executive. He should have understood that as well. They're here to hear from the founder and the visionary.

Curt Roberts:

And if I could note, I think it was obvious to that executive, the reality is he had motivations about his own role in the company and where he wanted that to go. That became pretty clear at that point in time. And it was, I don't think that was lost on him exactly what he was doing.

Rachel Nilsson:

Right. I think you're exactly right. I think at the end of the day, it all stems from just immense insecurity. Like Curt said, he was helping me with a pitch to an extent, where Curt and Kickstart thought, Oh, well maybe this is a CEO. To when we got to the end, when we wanted to fund everything, it was like, no, don't do that. And it was almost because he was afraid that it was so transparent-

Karen Zelnick:

That it would be uncovered and he'll be blown. Yeah.

Rachel Nilsson:

Yeah. That's how I felt.

Karen Zelnick:

So Curt, so you invest in founders and you were already excited based on the reference of Jeremy about this company. How did you get to know Rachel as a founder and to be excited about her? Did that inhibit your willingness to invest for a little bit or?

Curt Roberts:

No, it just meant we were that much more determined to have the conversations in a forum and a format where we could get to know Rachel and not have somebody trying to play the role of a go-between. So it didn't create problems from that standpoint. But what it did do, which I think was really helpful, is that in the process of then getting to know Rachel, before we invested, the reservations that we felt started to come out in Rachel as well. So before we even closed the financing round, we were already having conversations about this developing problem with this one individual and how the company might have to deal with it.

Rachel Nilsson:

And that also was really good for me to go through prior to taking on the money because of what I mentioned earlier, I wanted somebody that I could call that would help, that would actually be useful. And it wasn't just a bank. I was craving that mentorship and it was nice to go through that in the beginning because I could tell that Kickstart really could be that for me. And that was the missing thing, the missing link.

Karen Zelnick:

Curt, those are tricky conversations to have, especially before you funded, as an investor, how do you navigate that situation?

Curt Roberts:

Well, there are circumstances where a company in a similar situation with a problematic senior executive would be a deal killer for us. In this case, because we believed so much in Rachel and because we had tested the waters, I think with each other, in our conversations about this individual, I knew we were aligned about what needed to happen. And so we were signing up for a difficult piece of work together right out of the gates. But since I knew, we both knew what needed to happen, we were ready to go do that together.

Rachel Nilsson:

It was scary for me because I was thinking this could totally blow the deal. But at the end of the day, I care the most about Rags. And I know what's best for Rags. I think investors could see, hey, she'll do whatever it takes for Rags. And even at the chance of losing our investment, that really was where it got to.

Karen Zelnick:

Okay. Wait, so tell us what happened.

Rachel Nilsson:

Oh, it was chaos, but-

Karen Zelnick:

Let me get the popcorn out, hold on, okay, for real.

Rachel Nilsson:

We ended up parting ways. And I'm such a fan of just being able to part on good terms. And I feel like that as harsh and as hard as that was, I remember sitting across the table, just crying. I learned that I got the business to where it was, and I learned to believe in myself. And Rachel, you are important in the business and you're important and you understand where it's should go.

Curt Roberts:

One lesson that I relearned in watching Rachel go through this is for a CEO, there is nothing more transformational than a great hire in an executive role. Also for a CEO, there is nothing more catastrophic than a bad hire in an executive role. And oftentimes people that are challenging when they're in the job will also be challenging going out the door. And I think we found that to be the case here. It shouldn't have to be difficult to part ways when it's not working. In this case, it was incredibly difficult just to get the process completed. And it wasn't because Rachel wasn't earnest and attentive and working to make it happen, it's you have to have a party on the other end that's also cooperative and understands why it needs to happen. In this case, it was one of the hardest processes of terminating an employment relationship that I've ever witnessed or have gone through myself.

Curt Roberts:

I think it is so tempting, especially in a startup when you're resource starved and every person is wearing three hats. And in Rachel's case, more than that, to just want to get a position filled. And you see a good resume, you see somebody who's got some experience, they present well, they're polished, they're articulate. It's very tempting to say, when can you start? I'm not in this case suggesting that Rachel didn't do her due diligence, but I think the best CEO recruiters, if you want to call it that, are people who spend an inordinate amount of time in the decision process before they actually make that decision. I'm watching right now one of my companies that has to hire a CFO and the timing of this is absolutely essential. They're about to go through a very large fundraiser. They need the CFO and the CEO is going to take whatever time it takes. And it might be months, but the quality of the candidates, the quality of the process, the certainty with which and confidence with which you make that hire, if you do all the homework upfront is significantly better.

Karen Zelnick:

And then would you go with the adage of, you hire slowly but fire quickly?

Curt Roberts:

Yes. Without question.

Karen Zelnick:

Yeah, because I would love to know, how much time do you think you should give for adjustment and onboarding and that type of stuff before you make that call?

Curt Roberts:

I will say I've had to do unfortunately a fair amount of firing in my career as well. There is not a single time where I, in retrospect, believe I did it too quickly. Most of the time when it's not going well, you know and as soon as you know, make the change, bad hires, don't age like wine and cheese.

Karen Zelnick:

They age like spinach.

Curt Roberts:

They only get worse. And the amount of damage that can be caused until that change is made, can be very challenging to recover from. And so I think when it's evident, you do it.

Karen Zelnick:

Perfect advice.

Rachel Nilsson:

I think it's so much harder said than done because of imposter syndrome. It's like I'm I crazy?

Karen Zelnick:

Which probably conflicted] with your ability to trust your gut and when you get that conflicting with each other, how do you know which voice to listen to? It's so hard.

Rachel Nilsson:

But I think Curt makes a good point, where it's like, when you're feeling that there is an issue, almost never, is it going to go away. Don't wait until it gets so bad that it's destroyed your business.

Karen Zelnick:

So it's like pain now or pain later, right? Pick when you want your pain.

Rachel Nilsson:

And that is painful either way.

Curt Roberts:

In this case, the beauty of the relationship that we had established as we were investing in the company and we got to know each other, is Rachel, didn't have to go through this alone. As she was feeling these doubts, she could immediately place a phone call. And to the extent she was feeling imposter syndrome, at least she had somebody else who's been through the battle multiple times and could say, "Yeah, you're right. This is a problem. You are not misreading this, it is a problem."

Karen Zelnick:

That would not have happened with Shark Tank.

Rachel Nilsson:

That is narsic. No, that is absolutely what I was craving and needing. And that is the role that Kickstart and Jeremy had played. Huge big deal.

Karen Zelnick:

So this has been an amazing discussion. And I think the biggest takeaways for me are, Rachel, as you pointed out, trust your gut and then Curt, hire slowly, fire quickly. And so Rachel, just to wrap it up, I have one final question for you. And that is what is the single most effective practice that you've implemented that has had the biggest impact on your success?

Rachel Nilsson:

Taking care of myself mentally, because if your cup is empty, how do you expect to fill anybody else's cup as a leader, as a mom, as a friend, as a anything?

Curt Roberts:

Yeah. And you and I went through, I remember this clearly, you're going to remember it as well. We went through an experience literally in January, where we were at a conference together and we left the conference for what we thought was going to be 20 minutes to a half hour to sit down and chat at a coffee shop across the street. It turned into two hours and your cup was empty.

Rachel Nilsson:

Fully empty.

Curt Roberts:

Completely empty.

Rachel Nilsson:

Yeah. I mean, massive lesson learned was quality of life, trumps all. I love Rags. I love my business. I am passionate about it, but there was something missing. And I think it was, I wasn't fully taking care of myself and my mental health. And that's still a struggle. And I think for any CEO that will be, it's like you become so fixated that at some point you risk burnout. And it's like, that would be probably the biggest thing that's helped me be successful in life, is it's not selfish to take care of yourself, it's actually so that you can be a good leader, so that you can be a good CEO, so that you can be a good mom, in my case. So you can be a good partner, so you can be a good friend.

Karen Zelnick:

And what little steps have you tried to implement to make sure that that's happening, moving forward?

Rachel Nilsson:

Hire the right freaking team. Full circle, it comes back. That is the honest truth. So hire right, so that you can have that.

Karen Zelnick:

Curt, any last words?

Curt Roberts:

No, I just, I remember when Rachel and I had that moment back in January, the conclusion, I took away from it is Rachel was really asking for it to be okay to be spent and exhausted. And to have an honest

conversation about what do we do now. And those conversations will happen at various times. Every founder will go through the highest of the highs and the lowest of the lows. And I think one of the benefits, I think that Rachel has commented on about having some partners at the table is that load can be shared. You don't have to go through it alone.

Rachel Nilsson:

I love it. I just read a stat recently about 72 or 73% of all founders at any given point are experiencing some sort of mental exhaustion and fatigue and need help. And that is fricking isolating. That is so isolating. And so it's kind of to Curt's point and maybe people would be like, don't do that to your investor. They're going to lose faith in you. They're going to be like, "Whoa, this chick is off the rails."

Karen Zelnick:

But then again, to Curt's point we're investing in people. Right. And that means you care about the whole person.

Rachel Nilsson:

Totally. And I guess that's the biggest benefit with the partners that I've chosen in Kickstart and in Curt, is I have never felt like I couldn't be authentic. That probably is such a no-no, but the really refreshing thing for me is that I know at any moment I can knock on Curt's door and be like, "Hey, I am at that point, help me." Even just saying that and being allowed to say that has been a game changer.

Karen Zelnick:

Which is another great takeaway for all the listeners too, choose your investors wisely.

Rachel Nilsson:

Major.

Karen Zelnick:

Hire slowly, fire quickly, pick great investors and trust your gut.

Rachel Nilsson:

Yes.

Karen Zelnick:

Thank you both so much for being here. Thank you, Rachel, for being our founder guest on the episode today and thank you Curt again for always being our expert voice on this podcast. I really enjoyed the discussion. Thank you both.

Curt Roberts:

Thank you.

Rachel Nilsson:

Yes. So happy to be here. Thank you.

This transcript was exported on Mar 19, 2021 - view latest version [here](#).

Karen Zelnick:

Thank you for listening as we dive deep into what it takes to create the Perfect Pitch. If you want to learn more about our investor, Curt Roberts from Kickstart or our CEO, Rachel Nilsson, and what she and her incredible team are doing at Rags, to continue making Rags so obsession worthy, we'll have a link to the company and a longer bio in our show notes at kickstartfund.com/perfect-pitch. We'll be back next time with more insights from entrepreneurs and the investors who fund them. So be sure to subscribe so you don't miss a thing. You can listen to more episodes of Perfect Pitch wherever you listen to your podcast, Apple, Spotify, Stitcher, wherever. And if you liked what you're learning, leave us a review or rating. Catch you next time.