

Karen Zelnick:

It's not uncommon these days to see startups born out of a desire to do a little bit of good in the world. And the good news is, that businesses motivated by a social mission have a real appeal to both customers who like the idea of putting their money to good use, and investors who love the kind of focus and passion that comes from a founder on a mission. But balance is key, so how do founders keep their startups profitable while being true to the heart of their social mission? Today, we'll find out as we talk to Davis Smith, founder of Cotopaxi and investor Dalton Wright, as we bring you both sides of a perfect pitch.

Karen Zelnick:

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. Dalton and Davis, thank you so much for being here today.

Davis Smith:

Yeah, absolutely. It's great to be here.

Dalton Wright:

Thanks, Karen.

Karen Zelnick:

It's going to be a lot of fun. And Davis, let's just tell everyone a little bit about you. You are the CEO of Cotopaxi, which is an outdoor gear company with a humanitarian mission, Gear for Good. And before founding Cotopaxi in 2014, you were the co CEO of Baby.com and Dinda.com. Did I pronounce that correctly?

Davis Smith:

Yeah, Dinda, in Portuguese is pronounced Dinda. Yeah, Dinda, it's an e-commerce company, very similar to Zulily, if you're familiar with Zulily. For example, in Brazil, there was a famous brand called [Portuguese 00:01:36], but they ended up not ordering the exact amount of inventory. So, we would take excess inventory, we'd put it on our site and we could sell it for less money. And so, that was the model for Dinda.

Karen Zelnick:

Amazing. And not only are you a great entrepreneur, but you're a true adventurer. As I understand it, you've camped in the Sahara, floated down the Amazon, explored North Korea, backpacked South America, and then is this true, that you recently led the first successful kayak crossing from Cuba to Florida?

Davis Smith:

Yes. It was a few years ago.

Karen Zelnick:

What? So, recently as in, yeah, we're all skipping 2020. So, that year... Yeah.

Davis Smith:

That's true. But yeah, I love adventure. It's a big part of my life. I'm excited to talk about it with Dalton as well, because he's been on a few of those adventures with me.

Karen Zelnick:

That's what I hear. So Dalton, welcome back to the show, first of all. For those who want to learn more about Dalton's background, and his passion for helping startup founders pursue their visions, you can see it in our show notes. But yeah, let's dive into the connection the two of you have. Because you know each other from Mexico, is that correct?

Dalton Wright:

Yeah. So, I first met Davis when I was actually trying to recruit him down to Mexico. I was launching a venture fund called Alta Ventures and Davis was at the Wharton Business School between years, and so he had a summer that he was planning out. And we were lucky enough to convince him to come spend some time with us in Mexico. So I'd say, and this is just coming from the heart really, but I have tons of gratitude for Davis, who has inspired me in a number of ways. He went to bat for me on a number of occasions, to pursue interesting opportunities that I had.

Dalton Wright:

And this all really started just as we were down in Mexico, trying to figure out how to get a venture fund raised. One of the things that I love most about Davis, is that he injects fun and adventure into everything that he does. It makes life light, it makes the work load go easier, and I'm not surprised that over the years since then, Davis, you went to build a company that's focused on encouraging adventure, appreciating the outdoors and in the process, finding what we can do to learn about each other and be better together.

Karen Zelnick:

I love the history of the two of you have together, and I think it's going to be really cool to see the fun and adventure that you're talking about come out in this conversation with that, let's dive right into the adventure. Davis, Cotopaxi clearly follows a really strong humanitarian mission with your giving model and your sustainable product design. What led you to start the company, why did you decide to make it a B Corp?

Davis Smith:

So, the idea behind this business, which is a benefit corporation or a B Corp, those two words, they actually mean something slightly different, but they're very similar and oftentimes used interchangeably, is that we wanted to find a way that we could sustainably alleviate global poverty. And we wanted to do that through a business, and I'd always known my entire life that I wanted to use my life to find a way to make a difference in the world. I always thought maybe I'd work in the philanthropy world, in the nonprofit world. A mentor of mine when I was in undergrad, and he was a successful entrepreneur and had become a philanthropist. I tried to work for him, and he instead convinced me that I should pursue a path of entrepreneurship. And I'd never truly considered being an entrepreneur before that, but it put me on that path.

Davis Smith:

And so, I spent 10 years as an entrepreneur building a couple of businesses. My last one was in Brazil. And during that time, I really felt every single day as I was living in Brazil, this constant reminder of a commitment that I've made to myself, that I was going to use my life to help others. And I eventually decided that it was time, it was time for me to go do that.

Davis Smith:

But originally I wasn't sure how to do it. I wasn't sure if I needed to start a nonprofit, which I really didn't have any experience in. I Kind of landed on this idea of using a business to impact the world, and to inspire others to do good, and where we could sustainably have an impact. So, I knew what Cotopaxi stood for before I even knew what we would sell. I knew that I wanted to build a brand that could inspire the world, and that could show that there's a better way of doing capitalism. And then eventually landed on this idea of building a brand that was about the outdoors and adventure, and seeing the world.

Karen Zelnick:

And Dalton, I'd love your perspective on that. Because obviously as you're funding a company, you look into a lot of different aspects. Were there things about this business model that you were really excited about, or that you were concerned about?

Dalton Wright:

One of the things that really resonated with us was just because we knew Davis, we knew that the underlying drive was actually genuine, and so that was always going to resonate with the brand and with the culture of the company that he was building. That was really important to us, so if you are going to be a mission driven organization, and make that central to who you are, it better be foundational and core to who you really are. Because we knew Davis, that wasn't that much of a risk or a leap of faith that we were taking when we made that investment.

Karen Zelnick:

And speaking of leaps of faith, Davis, was it a leap of faith for you to take funding from venture capitalists, who often maybe their mission might not align with yours all the time? They might be a little bit more focused on profits, and things that don't align with your mission?

Davis Smith:

When I built my first business, I built a business right out of undergrad. It was a pretty random business called Pooltables.com. It's exactly what you think it is, we sold pool tables.

Karen Zelnick:

You sold ping pong tables. No, I'm just kidding.

Davis Smith:

Exactly. So, we sold pool tables on the internet, which is very random, but I built that business with my cousin and it was bootstrapped. We never raised outside money, maybe because we didn't know any investors, maybe because the business wasn't really that interesting to someone that might be looking

to invest as a venture capitalist. But I heard a lot of things about what venture capital was. I kind of liked the idea of owning the business and having control, not being held accountable by somebody else.

Davis Smith:

One of the things I learned in business school was that I didn't really understand venture capital, and as I built my second business, and when I moved to Brazil after I graduated, we raised quite a bit of venture capital. And what I found was that there were some real advantages to it. I loved having a partner, or having a group of partners that could help me think through the business in a different way, that would challenge me on how I was thinking about it. And it didn't mean I didn't have control of my business, I still made the decisions. I just had other smart people around the table that helped me.

Davis Smith:

And I found that being accountable to someone was actually a blessing. It was something that I needed more of in my previous business, and had I had that I would have made better decisions, and I would have had even a better outcome. And so, when I was starting Cotopaxi, it was not a difficult decision for me. I had done two businesses, I'd done them one bootstrapped, one with venture money, I wanted to build a business with venture money. I wanted other smart people backing me, I wanted other smart people around the table. I wanted to be held accountable as a CEO, and I wanted the financial resources that come with the venture backing that allow you to accelerate your growth.

Dalton Wright:

I have a question for you, Davis. When I think about a challenge that a CEO might be facing when trying to satisfy the different demands of stakeholders, I'm curious if you've developed any type of frameworks to make decisions, when you're making resource constrained decisions. And with the resources that you have, you always have an option of using some of those resources to pursue more of the social impact side of your business. You also could invest in growth, you could in hiring, there are any number of things that you could use your resources for. And you have investors, you were saying, but we also need to grow faster.

Dalton Wright:

And so, I'd love to get your thoughts on, are there trade offs as a CEO when you're trying to navigate some of those things? Or is it the case that because of the business that you're in, where you're building a brand that has a lot of affinity around this type of activity, that there is no trade off? It feels like there has to be a trade off at some point, but how do you manage that as the CEO?

Davis Smith:

That's a good question, and I certainly struggled with that balance sometimes. When we started the business, within the first year I decided I wanted to hire a chief impact officer. We just raised a series A, we didn't even have a marketer yet on the team. And I did have my board to question like, "Why are you investing in a person that's going to be giving away money, instead of investing in someone that can help drive the business forward with and drive sales?" And I think this goes back to your question on the framework. For me, it was really around identifying core values that we stood for, and making decisions that followed those values.

Davis Smith:

We identified core values for this business before we'd sold a single product. We knew what we stood for, we tried to create intentional rituals and traditions around those values. And I knew that if we didn't build an impact strategy that would scale with us, that we would have nothing. That was the only thing that made this business really unique, was the fact that we were building a brand and a business that was built all around making this world better, around giving back, around serving others. And we had to do that right, and if we did that right, we would have the right foundations to go build a brand on.

Davis Smith:

The investors, to their credit, they supported me in that decision. And oftentimes I will work with my executive team on a decision, and we go to our board. And we ask for advice, and we say, "This is how we're thinking about it, help us think through it." And we've made changes in the way we thought about things. But our board has been a great resource for us as we've made big decisions, especially as you're trying to balance where to invest resources, and that's one of the biggest advantage that you have with a board. And I think whether you've raised venture capital or not, you should have a board. I wish I would have had a board with my first business, and I could have given a few really smart people a tiny bit of equity, and they would have been willing to jump on and help me through big decisions. We just didn't have that. I think that's an important part of building a business, is having that infrastructure around you to help you make better decisions, that support system.

Dalton Wright:

So Davis, I'm curious what you've learned about your company's culture and yourself as a leader, as you've tried to navigate the company during this hard time.

Davis Smith:

This last 12 months has been a really great year of learning. When COVID started, we acted very quickly. And I think that might be the best thing that we did during this pandemic, was how quickly we reacted. On March 13th, which was a Friday, we closed down our office, and March 14th, we closed our retail stores. And so, we lost about half of our revenue overnight. Our Questival events, these 24 hour venture raises that we held, were shut down, were closed. Our wholesale partners, REI and all these other retail partners closed. We sell a meaningful amount of product to other businesses holding events, conferences, giving swag to the teams, all that stuff got turned off. So, it was a terrifying moment.

Davis Smith:

So Monday the 16th, I held an emergency all hands meeting with our team, and I told them that I was nervous. I was very upfront with them and I told them, "I don't know exactly what is coming." But I told them what we did know. I shared some information that I had gotten from Goldman Sachs, that they had done over that weekend, they reported to a bunch of industry business leaders around what they saw so far. I reported to our team the impact that we had seen in the previous week to our sales. And then I promised them a few things: I promised my team that I would be honest with them, and I'd be transparent, and that I wouldn't be afraid to make hard decisions. I then asked the entire team if they would join me in giving up 10% of their pay. We actually had the executive team give up more pay, but I said, "This will buy us time to help us make the best decisions, and impact as few people as possible."

Davis Smith:

And our entire team said, "Absolutely." We had a few people on our team that came to us and actually said, "I'm willing to give up half my salary. I believe in what we're building, and I want to make sure that

we succeed." Then we immediately just started taking action. We rallied the whole team to come up with ideas, we brainstormed a hundred ideas as a team, around ways that we could cut costs, ways that we could have social impact in our community and give back during this time, when others needed it more than ever, and around ways that we could drive revenue and build our brand. It was really a pivotal moment for our team. Instead of cutting back on our giving, we actually doubled down. We gave as a percentage of revenue, a higher percentage this last year than ever before, by a meaningful amount. I think again, it just reinforced, I think, to our customers, to our employees and to ourselves that this was what mattered most. And I think it was something that became a strength to the brand.

Karen Zelnick:

Dalton, I don't know about you, but I got chills as Davis was talking, and I am getting kind of emotional here as we talk about this. But I do want to hop to Dalton, and ask as an investor, what is your perspective on that, and hearing that? Because obviously, you do need to focus a little bit revenue and that type of thing. I'd love your insights.

Dalton Wright:

My reaction to that is that this is evidence of why this is an enduring brand, and why there's likely to be a community around this brand for years to come. People remember how you behave when things get hard. It either approves the strength of your values, and your commitment to those values, or it forever undermines them. And so, in moments of crises, I think great leaders find ways to make their companies even stronger. And I would say that Cotopaxi's commitment to their core mission, and those values has strengthened the company. I also know that the company continued to grow. You responded with manufacturing face masks and responding directly to needs in the market. That's hard to do under normal timeframes, but to do that in a crisis is remarkable as well. And so I think as an investor, it's a lot easier to maybe take a more altruistic approach when the company is also growing, because it's performing well. And that's one of the beauties of Cotopaxi, is it's performing well while staying true to its mission.

Davis Smith:

Yeah. And I will say during March and April, as we were making these decisions, the outcomes of that year, of 2020 were a lot more uncertain. We had a board member that actually said, "Okay, I want you to plan as if you're going to be half the size you were last year," which was honestly a terrifying thought, because it meant letting go of a lot of our employees, which just made me ill. I went to bed with tears in my eyes several times that first week, it was hard. And I think one of the most valuable lessons I've learned as a CEO, is the value of having great people around you. Whether it's on your own team, or other just friends or mentors.

Davis Smith:

And I had a CEO friend that sent me an article that she had found, and it was a game changer for me. It was this article that talked about the way different CEOs have responded in the first two weeks of the pandemic. And they'd interviewed all these CEOs, and then they broke down these conversations and put them into three different categories. There were the fear-focused CEOs, that were consuming many times more amount of media than the other groups. They were using a lot of words that were fear-focused. There was the unfocused CEO, which really had not made any changes, had made no big decisions, was kind of head in the sand, wait and see what happens. And then there was the strategy-

focused CEO, that was optimistic, that was not just consumed by the media, that was using words like opportunity, and using words like buy.

Davis Smith:

And when I read that article, I saw some of myself in the fear-focused CEO, and I saw some of myself in the strategy-focused CEO. But what I decided was I did not want to be that fear-focused CEO. And I sent the article to my entire team, and I challenged all of them to ask themselves if they were being fear-focused, unfocused or strategy-focused as an associate, as a manager, as a director, a VP. And we made a decision as a team, that we were going to be strategy-focused. And again, it was one of those pivotal moments, I think, as a leader, where we rallied together around the right things. And sometimes you have to put your fear aside, but you have to have the discipline to tell your team, "This has been a challenging day," or, "This has been a challenging week," or, "We're going to put those things aside for 30 minutes, as we talk about something that matters more. How are we going to execute on X, Y, Z?"

Davis Smith:

That's certainly what we did during this last year. Talking about masks, this was one of the big reasons we started the mask program, is we looked around the world and we said, "Masks are important. But the people that are getting mass are the people that can afford them then." So we thought, how could we donate masks? And we thought, well, if we made masks, and we donated a mask for every mask that we sold, that would work. And we had customers reaching out to us saying, "Will you make a mask? We would wear the mask, we love your brand and what it stands for." And so, we've sold somewhere around a million masks. It's been obviously a game changer for our business, but also something that allowed us to have an impact in an area that we were really passionate about.

Karen Zelnick:

I was furiously writing notes as you were talking about that, I think there are so many good leadership takeaways from that. I love your willingness to say, "Hey, I don't know. We're not going to lean into the fear, we're going to create space for it so you can feel it, but then we're also going to move forward," so thank you for sharing that. And Dalton, I would love your perspective as an investor, and what leadership traits you saw come out in Davis during this time.

Dalton Wright:

I think a couple that Davis just highlighted, was that he was proactive in responding to the situations, and didn't wait for the situation to unfold. You never have as much information as you wish you had in the startup world when you're making decisions. And so, you have to be able to make decisions with the right amount of information, and in the timeframe to actually have those decisions make the impact that you hope for.

Dalton Wright:

So, I think the fact that Davis was able to proactively address burn rate questions, I just think, we've touched on this, but the job of the CEO, and the founder or the visionary, is to provide that constant steady direction of where the company needs to go. What true North is, and does the founder embody the values of the company, and do they stick to those when the world is on fire? That's such a confidence builder for teams, to know that the CEO is being transparent, so they're not spinning and managing me, they're inviting me to be part of this process. And we know where we're going, because this is a five, 10, 20 year mission that we're on, and at any point in time there will be the vicissitudes of

politics, and occasionally a once in a lifetime pandemic. But if you know where you're going as a company, and the leader is the one that is the keeper of that vision, I think it allows the entire team to actually get stronger as they respond to adversity together.

Karen Zelnick:

Dalton, I completely agree. I think there have been so many wonderful takeaways, especially about leadership, during this conversation. And that article that Davis mentioned, we'll get the link to that and put that in our show notes. Davis, I have one final question for you, and that's what's one of the most effective practices you've implemented in your work and personal life, that's had a great impact on your success?

Davis Smith:

If I could, I'd maybe say two things. The first is that I found if you have purpose and a clear mission behind everything that you do, and you build your life around those things, then you have more success and you're happier. The second thing I would say, is constantly be willing to learn. One of the best decisions I've made in the last year, or in the last 18 months was hiring a CEO coach. I wish I would have done that 10 years ago. It has been transformational for me as an individual just personally, and as a leader. And so, surrounding yourself by people that can push you, that can drive you, looking for opportunities to learn, and to stretch yourself and grow as a CEO. And every single year, being willing to rehire yourself as CEO. And saying, "What does the business need out of me this year, that it didn't need last year, and what can I do better as a CEO? And so, those are probably the two things that I'm a big believer in, and have probably really shaped the way I lead.

Karen Zelnick:

Davis, thank you so much. Dalton, also thank you for being part of this conversation. I thought it was so enriching, so inspiring, and I love Davis, what you just said about surrounding yourself with people who push you and drive you. Actually, that's one of the reasons I love this podcast, is because I get to speak to people every week that push and drive me, and are inspiring. And I love the leadership takeaways from this one, so thank you both again for being with us today.

Davis Smith:

Thanks, Karen. Thanks Dalton, it was great being here with you.

Dalton Wright:

That was fun, thanks Davis. Thanks, Karen.

Karen Zelnick:

And of course, thank you for listening as we dive deep into what it takes to create the 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. We'll catch you next time.