Karen Zelnick:

Today, we're digging into the value and potential pitfalls of strategic partnerships, and we're not talking about choosing your pickleball partner carefully here. In the scrappy, DIY world of startups, sometimes, the need for leveraged power from an already established brand might seem like a cop out, but sometimes, it's exactly what the doctor ordered and brings things to the next level or even save the day. To show us what it looks like when a startup lands a strategic partnership with one of the most well-known brand leaders in the market, we're bringing back Jeremy Hanks from Dsco and Dalton Wright of Kickstart to 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.

Karen Zelnick:

I'm your host, Karen Zelnik. Jeremy and Dalton, thank you so much for being here today.

Dalton Wright:

Good to be back.

Karen Zelnick:

We're so happy to have you both back for the second part of your startup journey. We touched on strategic partnerships a little the first time you were with us in Episode Four of this podcast, but we said then that we needed to have you back to get into this. So, welcome. Really excited to talk to you and have you back.

Jeremy Hanks:

Glad to be here.

Karen Zelnick:

And you are the founder of Dsco. We'll have a link to a longer bio and information on Dsco in our show notes at kickstartfund.com as well as Dalton's bio. It's been a few weeks since our last conversation on the show. For those who need a quick refresher, in our last episode, Jeremy walked us through Dsco's founding story and some of the early roadblocks that he faced. The company actually faced a near close, but with a flash of brilliance, Jeremy was able to overcome the uphill battle. It's a great startup story, so if you haven't listened, rewind, go back, and check it all out.

Karen Zelnick:

But for today, as I mentioned, we're focusing on strategic partnerships, and Jeremy, you're a bit of a mastermind with that. So how did you first decide to contact Nordstrom and initiate a partnership?

Jeremy Hanks:

So that's an interesting question. I don't know if I would agree that I'm a mastermind. I appreciate the compliment, and maybe this will circle back around to thinking whether I'm a mastermind or not. But the answer to that question is, we didn't first contact Nordstrom. They contacted us.

Jeremy Hanks:

I think that when you think about strategic partnerships and companies and entrepreneurship, I kind of wonder if you were to find 100 founders, 100 companies, 100 management teams, and you zoom in on this question of a strategic partner, a make-the-company partner, I bet you would find that a high number of those, it was exactly what happened with us and Nordstrom. They were the ones that called us, not the other way around.

Jeremy Hanks:

So I wonder if the answer to that question is is one of the keys to successfully navigate and have a strategic partner be critical in your pathway to success is they're going to come calling you, not the other way around. So then the better question is is what can you do, such that two things, one, people that can be that make or break strategic partner are going to call you, and I think at the core of that is to be disruptive and then to be super genuine and honest and transparent, and then two, such that they do call you, you can actually engage in a win-win, one-plus-one-equals-three partnership. But I think it's more that way... for our story, it was that way.

Karen Zelnick:

Dalton, would you agree with that?

Dalton Wright:

Yeah, I would agree with that. I think that would just make sense that these types of partners have a sense for where they're going and what they're looking for, and when they see it, they can take action on it. I also would say that most startups aren't setting out to usually go down the strategic path when they're raising money.

Dalton Wright:

In this case, Jeremy, I think one of the interesting areas where we could take this is just around what did you do to put the company in the position to have that partnership happen, especially given that we were not in a position of strength at all at that time. I don't think of Dsco as being in a position of strength when Nordstrom showed strong interest.

Jeremy Hanks:

I think mostly it was that we had clarity on a vision for what we wanted the retail supply chain to look like, to change into, and we aligned with them in that way. But we were as much, if not more, of the profit in this new religion as they were, and because of that, we told them no. And so I think it's the courage to have that vision, that north star, and to see the product market fit and to see the evolution of what you're trying to do with the disruption that your company is based on and then be willing to tell the strategic partner who is 5, 10, 100, 1,000, 10,000 a million times more strong than you and your startup and still tell them no.

Karen Zelnick:

Were there ever times throughout the process that you second-guessed saying no?

Jeremy Hanks:

Yeah, definitely. I still remember the first meeting we had with Nordstrom's attorney, and she says, "Okay, I've gone through the Dsco terms of service that I got from your website. Look, we're Nordstrom. We have to use our master services agreement, but I have brought everything from your terms of service into our agreement that I think are material for the business relationship that we're going to have. Let's go from there." And I can say from experience, Dsco worked with other strategic partners as well, and it was not nearly that kind of scenario. Nordstrom knew that the biggest risk that they had in selecting a startup is that they would just crush us and smother us, and that one of those ways could be in the commercial agreement and/or the investment terms that could really go sideways.

Jeremy Hanks:

I'd like to say that that was part of our north star was telling a strategic investor, "It has to look like this, or we won't do it." But Nordstrom, we got super lucky in the fact that they said, "We think it should look like this, so that we don't mess it all up," and then we used that playbook and that framework every time we had conversations with a strategic partner, right?

Jeremy Hanks:

When we had someone who would ask for that term, we want all the technology and it's like, "No, look, look. What you're asking is to buy the company and [inaudible 00:06:26]. If you want to buy the company, we'll have that conversation all day long."

Karen Zelnick:

We'll talk about it.

Jeremy Hanks:

[crosstalk 00:06:30]. We were super fortunate because we were able to basically say, "Well, Nordstrom was our first flagship customer, and they're our major investor," and they didn't ask for those terms, and that was a huge benefit. So if they get past the why should we work with them, then for the entrepreneurs, key to working with strategic partners is you cannot allow them to smother you either with how they roll out the technology or how much influence over the roadmap that you give them or legal terms. [inaudible 00:06:58] there are several things, and you're going to feel like, "Well, we have to do it. They're going to make the company. They're going to fund the company," and you have to say no to those things, or you're basically going to become the walking dead.

Karen Zelnick:

It sounds like startups have more leverage than they might think that they do, and I'd love your perspective on that, Dalton.

Dalton Wright:

What really stood out to me in Jeremy's answer was just that where he saw strength was in the strength of his vision and that his conviction to hold true to that vision. And so when I said we weren't coming from a position of strength, that was from the perspective of short runway, not a lot of revenue, question marks around repeatability of our model, lacking in traction to feel super confident, putting more money in as an investor. And yet, what Nordstrom really loved was there was such clarity around the vision that I think, maybe, there were people within the organization who needed to see that type of conviction to continue to lean in on the direction that they wanted to take things, and they knew that there was a partner out there that was willing to go fight that fight.

Dalton Wright:

And I also think that it also just underscores that there is a certain good fortune, at times, in successful stories, and the good fortune here is that you had a partner like Nordstrom. It's not just that Nordstrom was uniquely good. I think it was that they were uniquely aligned with what Dsco was trying to do, and so it's a lot easier to operate with a higher degree of trust when their reason for engaging in this thing with Dsco was to change the way information was transacted across an entire industry, knowing that if they, as Jeremy put it, "smothered it" or reached too far in controlling it or pulled it in to their business, it would handicap it from coming what it needed to be in order for the industry to evolve.

Karen Zelnick:

I think that idea of a north star and sticking with that is such an important takeaway for everyone listening, and it sounds like it's so key in negotiating, not even just with strategic partnerships. We've had other conversations on the podcast about negotiating and the importance of that north star.

Karen Zelnick:

Jeremy, in addition to that, do you have any other tips on negotiating favorable strategic deals? What else came into play in addition to that north star focus?

Jeremy Hanks:

Well, first of all, I know many attorneys. I respect and appreciate everything they do. But if you put two attorneys in a room and say, "Get a deal done," you probably should wait until we've colonized the universe, and there's no more longer life on earth. They'll go back and forth over the word "and" or the word "the" until the heat death of the universe, right? You need to work out all of the major pieces of the deal, business to business, and then both sides need to tell their attorneys, "Go make it happen."Don't allow corporate attorneys to basically have undue influence on these negotiations because if you do, you will go sideways.

Jeremy Hanks:

And if you're an entrepreneur and you're a startup and you don't have legal counsel that is the best of the best of the best, and I can tell you how you know that. You know that by how much they charge you per hour. If it's not $500... truly, if it's not $500 or more, you don't have the right attorneys to even be in the same room with strategic investors and large enterprises. So that's a super practical thing.

Jeremy Hanks:

The other one is maybe more strategic. One of the challenges that we ran into with Nordstrom, they didn't want to end up owning enough of Dsco so that they had to consolidate financial reporting on their side because it would just make it really complicated. Well, their corporate council came up with a grand solution such that there could be some proxy shares and different things worked out with me and them and all of a sudden, it was like, "Great." They don't own more than 19.9% of the business. We figured [inaudible 00:10:46] way.

Jeremy Hanks:

So it's kind of that if-then type logic. If you need this in the commercial agreement, well then, this thing over here in the strategic investment agreement and being able to kind of go through those in a way that you point out, you don't realize it, but let's walk through it. If then, if then, if then, and the last one you're basically asking me to sell you the company. That was a very common thing that we landed at. And you said, "But how can you ask me to buy the business for just doing a pilot program with us? You're not even paying us any money for the pilot." But if then, then, then... and then they were like, "Oh, that's not what we're intended," and now all of a sudden, magically, that term just goes away, especially when the business folks understood that kind of flow and then they were able to have a conversation without us even involved with their counsel.

Karen Zelnick:

I think that is so wise, and Dalton, I would love your reaction to that.

Dalton Wright:

I really like this concept of if-then. The right of first refusal is so key because if they have that, it means it's hard for any other buyer to come along and pick you up because they won't even get engaged in the process if they know that the strategic can just step in and purchase you for the same offer. So it throws cold water on your exit opportunities, and it closes the door on other investment opportunities.

Dalton Wright:

Another major category is just around exclusivity, exclusivity of services into their segment. And so the more narrowly you can define their segment, the better because you want to preserve your ability to serve more markets and more customers.

Dalton Wright:

The others, I would say, are around roadmap. The tendency with strategic partners is to say yes to everything because you really want to get this deal done. They'll tell you everything they could use, and so you're going down the wild goose chase. So things that you get pulled into building for your strategic partner are not actually relevant to your other customers.

Dalton Wright:

And then a final one I would just say is on kind of the sales motion. So if you already have a strategic partner and you are selling with them as a channel of sorts, what have you defined in terms of how you actually take that product to market together, and who's responsible to sell it? Who's responsible to bring customers on? That's where I've seen some of the partnerships go sideways. Ask the if-then questions and then structure terms that support those things.

Jeremy Hanks:

Somebody told me once, if you ever have to go to one of those written agreements to clarify something, especially with Dsco to Nordstrom or Dsco to Kohl's or where you've got a startup and a really large enterprise flagship organization, something's gone way off the rails. A large enterprise is used to just asking, "What does that mean for this thing I'm buying?" They're not asking, "What does that mean for this strategic partnership? What does that mean for this company that has its own objectives?" But if you get that all out early, get it on paper, right, having good counsel, then you get that 100,000-foot alignment such that inevitably, something's going to come up and you don't have to go back to the paper, and you're going to find that you're going to tweak and change as you go because both sides have continued to invest in the partnership. There's been more progress made, and you move forward.

Jeremy Hanks:

It's very easy for the business side of these large enterprises to either inadvertently or overtly see a startup as their outsourced dev department and say, "I can't get anything done internally, so we're going to do this deal, and maybe, I even get people to invest in it, and we're just going to give them list of things to do." And that's back to the Dsco way or the highway. You have to have a vision of what are you building for your partners, such that it's still broadly addressable to the market and to the problem. Did we build some things just for Nordstrom? Not much at all. Did we change the order of how we rolled stuff out? Yes. We added invoicing function now to Dsco probably a year and a half before we had planned because that was a deal-breaker, critical thing for Nordstrom. But we did it in a way that was still broadly applicable to the market.

Jeremy Hanks:

But if you get sideways on that roadmap, especially when you end up with a second and third partner, then you lose your [inaudible 00:14:54] company. You lose your repeatability. You have become a consultancy with three big customers.

Karen Zelnick:

Yeah. That's such an important takeaway. That was a big aha moment for me as Dalton when you were talking, and I love, Dalton, the sort of the list you gave of right of first refusal or ROFR as we've been saying, for anyone who heard that on the podcast and was like, "What's a ROFR," so that's what it is for short. And then it's been so great to have so many tangible takeaways for founders and those listening on this podcast and this episode, and Jeremy, moving tracks a little, Dsco was sold in November. I did see the celebration dance that you posted on YouTube. It was fantastic. Tell us how the experience was for you.

Jeremy Hanks:

It was a great outcome. The uniqueness, at least for me, was two things. One, I had stepped aside as the CEO in January of 2020 and put our COO, Vance Checketts, who known for so many years took over as the CEO and then, two, COVID pandemic hit 60 days later. The benefit, I guess, for this transaction was that I had already gone through the transition of someone else making decisions that wasn't me. I tried to respect that when we told the team, "Vance has taken over CEO," it's one of the only times in my life I have experienced you can hear a pin drop, and people's jaws are literally on the floor. And then a week later, I left all the Slack channels. So that pulled me back and that was this challenging, challenging thing, and then COVID came from a different direction.

Karen Zelnick:

And Dalton, you got to watch it. Was it exciting for you as the investor? What were your thoughts?

Dalton Wright:

My takeaway from this is that Jeremy had a lot of foresight to bring Vance in early because Vance had worked for the company as a couple years as COO. Jeremy was the one who made the call, right? So he was in the position to shape how that happened, and I think sometimes, entrepreneurs, because they're so afraid of that happening, they don't actually dictate the terms of how transitions can happen.

Dalton Wright:

And so in this case, Jeremy brought in a guy who helped make the business better, and then when he felt the transition was right, was the one who was able to advocate for it and actually bring the board along with the decision and the rest of the company. It requires a great deal of self-awareness and humility to be able to do that because sometimes, our identities and our egos get so wrapped up in the narratives and the stories that we tell ourselves and the expectations that we put on ourselves that it can be confining and limiting and how we might see a better path forward that's in the best interest of all the shareholders.

Karen Zelnick:

Jeremy, it's really admirable the way you handled so many aspects of the business. I'm going to just say it. I think you are a mastermind, and we're sticking you with the label and have really appreciated having you on this podcast today.

Jeremy Hanks:

Thank you.

Karen Zelnick:

We usually end by asking people what's an effective practice that they've implemented. We asked you that last time, so we're not going to make you repeat it, and you had a great answer. I won't spoil it for people who haven't heard it by chance. Go back to episode four and listen.

Karen Zelnick:

I do want to ask you, now that Dsco's been sold and everything, what's next for you?

Jeremy Hanks:

It's a great question. I have a specific answer and a generic answer. So the specific answer is I call it my Dantesque sabbatical. I've always wanted to read the Divine Comedy by Dante Alighieri. It's an epic poem where Dante is the poet, and he's the pilgrim. So the way I explain that that would be like if George Clooney wrote and directed in a movie starring George Clooney as George Clooney. So this is Dante in 1300-something. Well, it's the 700th anniversary of his death this year, so I've gotten kind of sucked into that. I have at least 50 books about the Divine Comedy, and I'm just like trying to read some of them. There's no way I'll get to all of them, but I joke that maybe I'll become a Dante scholar, so that's the specific answer.

Jeremy Hanks:

The general answer is that a lot of people... this is big transition period. I've talked to a lot of founders. I've talked to a lot of investors. I've talked to mentors, friends, family. The best advice that I got was don't do nothing, but don't force something. So I don't really know what's next, but I definitely want to see where I flow and follow the path of least resistance, not in a negative way, but in a smart way, what comes, what's the passion. If that's next month, great. If that's five years from now, that's perfectly fine too. So that's my answer to what's next.

Karen Zelnick:

We're very excited to see what's next.

Karen Zelnick:

Dalton's nodding. Dalton, any last words before we wrap up?

Dalton Wright:

I like that answer just because it's an example of what I think a lot of entrepreneurs hope for. If they have some success, which is the freedom to be self-actualized, there's no such thing as this end state of happiness where you get there and all of a sudden, it's like, "Oh, I exited, and now I'm happy."

Karen Zelnick:

Finished.

Dalton Wright:

We can just hang it up. It's like there are new questions, and there are new things to explore and the new challenges, but what has changed is that you now have more freedom to actually pursue some of these things that you actually now have won the right and the resources to expand what is now possible?

Jeremy Hanks:

That's a whole other podcast. I just was reading this Wendell Berry book, and it's based on farming. Basically, this farmer is just working his whole life to pay off his farm, which he does. Then his barn burns down. I mean, all these challenges and catastrophes and things happen, and he pays off his farm again and everything. And at the end of the day, he's kind of talking to another farmer. He quotes that Scripture, "Yea, though I walk through the Valley of the Shadow of the Death" kind of scripture. And he basically puts it into his framework, which is like, "It's not about the farm. It's not about the startup. It's not about the success or the failure," right. It seems like that's the case, but the highs and lows that you feel have nothing to do with that. It's about you, right? It's about the farmer, not the farm.

Jeremy Hanks:

I just read that a couple days ago, and I was like, "This is talking about entrepreneurship because it's not about the farm." It's about the farmer. And if you can get that straight in your head, which I'll be... I've struggled with that a lot of time in my life. But if you can keep that straight in your head, all of the other things are just... and then it's just part of the journey, right? It's part of the story. There is no destination. It's about the process.

Karen Zelnick:

It's kind of full circle. It's like that's the ultimate north star, right? That's the ultimate north star that you need to stick to, and I think that's such a beautiful note to end on, and you and Dalton have given us so much to think about, not just with strategic partnerships, but just life in the universe in general, where I'm like, "I've taken a lot of notes. I'm going to go journal. I'll be back. See you later."But I just really appreciate you both being here. It's been such a wonderful deep discussion. Thank you.

Jeremy Hanks:

You're welcome. Happy to do it.

Dalton Wright:

Yeah. Thanks, Karen. Thanks to you too, Jeremy.

Jeremy Hanks:

Yeah, thanks Dalton.

Karen Zelnick:

And of course, thank you for listening as we dive deep into what it takes to create the perfect pitch.

Karen Zelnick:

If you want to learn more about our investor, Dalton Wright, from Kickstart or our founder, Jeremy Hanks, and Dsco, we'll have a link to the company and a longer bio in our show notes at kickstartfund.com.

Karen Zelnick:

You can listen to more episodes of Perfect Pitch wherever you listen to your podcasts, and if you like what you're learning, leave us a reviewer rating. 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.