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Virtual Event Series

Investing in Ecosystems

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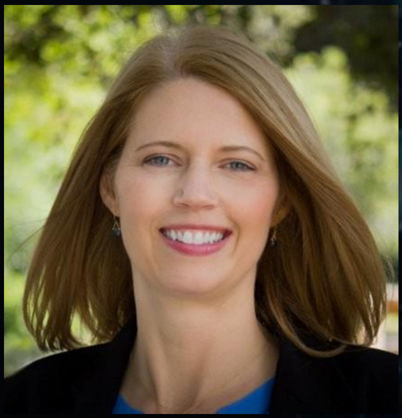
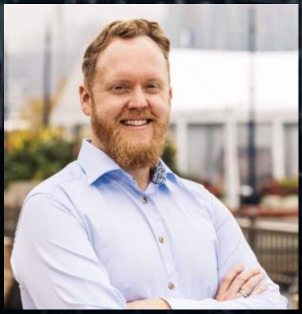


Jennifer Vancini
General & Founding Partner
Mighty Capital

Hosts:



Kenny Estes
CEO & Founder
Diffuse

Ayla Kremb
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DiffuseTap: Investing in Ecosystems

Last time on DiffuseTap, Jennifer Vancini, General and Founding Partner of Mighty Capital, talked to us about the importance of an ecosystem for a company's growth, where to get started with developing and investing in an ecosystem, and the key to building a community of engaged users around your products and services.

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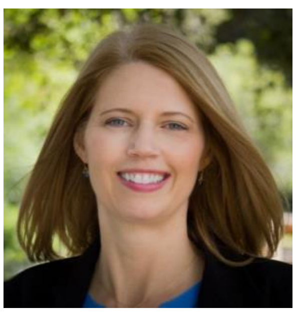
DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) … straight from your armchair like a boss.

Meet the Speaker



Jennifer Vancini is a Founding General Partner of Mighty Capital. Jennifer has been investing for 10 years, and prior to Mighty Capital built Pointgrey Partners, a family investment office where she achieved a 15x cash-on-cash return. She has held executive roles in the high-growth security and mobile sectors with companies such as Telefonica, Symbian/Nokia, and Certicom, which she helped take public in Canada. LinkedIn: @jennifer-vancini

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KENNY ESTES: Today's speaker is Ms. Jennifer Vancini, general and founding partner at Mighty Capital. Jennifer, would you mind unmuting yourself and doing a brief intro?

JENNIFER VANCINI: Sure. Thank you, Kenny. Good morning, everybody. I recognize a few names here. It's nice to meet all of you for the first, or second, or third time. I'm excited to be here. As Kenny said, I am a General Partner at Mighty Capital. We are an early growth venture capital firm based in Silicon Valley that is primarily investing series A and series B in B2B tech, in companies like Amplitude and Digital Ocean, both of which went public in the last year. What makes us unique is that we give our portfolio companies access to a network of >300,000 product managers, called Products that Count, to accelerate sales, hiring, partnerships and M&A.

A portion of our investing is also in health tech — mostly in AI and data as it relates to health, not therapeutics — FinTech, and blockchain. We separate those out because of the dynamics of those industries and the regulatory landscape there, which is unique from B2B SaaS.

Before I became a full-time investor, my operational experience was building ecosystems. I've done corporate development and strategic business development either in startups or in the digital transformation group of large companies. Some of the companies I've worked for include Telefonica, Pricewaterhouse, and Nokia/Symbian, for those who remember the early days of the smartphone landscape.

Much of my background, sector-wise, is in security and mobile. I actually worked for an encryption company in 1994 through 2001, before crypto meant money. That was in the early days of defining those basic algorithms and making encryption a household name before anybody knew what it was. Some of the people I worked with there are very active today in the Bitcoin and cryptocurrency landscape.

As an investor, what I look for in companies, other than the basic things we all look like team, product, and financing terms, is the ecosystem strategy of the company, and to understand how they leverage their ecosystem to get there bigger and faster. I like this approach because, in most cases, the success stories we hear involve companies that are able to build and leverage an ecosystem for a great outcome for investors. That's a bit about my background and why I'm here today.

AYLA KREMB: Awesome. I'll just kick off right into the questions. Let's start off with definitions. What does an ecosystem really mean for a company? Is it just about the network, and is there more?

JENNIFER: Yes, we should start with a common understanding of what we mean by ecosystem. We all have networks. I tend to think of networks though as more of a static, or slowly growing thing that we all have and can tap into. An ecosystem is different in that, in the business context, it consists of entities with some kind of relationship or value as an exchange. It's more organic and living than, say, a network, where you have contacts in a Rolodex, or LinkedIn.

The way to think about an ecosystem is how are entities working together to exchange value? It changes and grows constantly over time, whether we're aware of it or not. We all have a personal ecosystem. Our companies have ecosystems and using the case of venture capital, as investors we have our own ecosystem, and certainly the companies we're investing in have one as well, whether they're aware of what it is or not.

KENNY: As a follow up to that, when you're looking for the ecosystem of a particular company, how do you value it? That doesn't seem super quantifiable, but at the end of the day, you have to make a “go or no-go” decision. You need to model it out in some way. What does that process look like for you? What are the key things you're seeking?

JENNIFER: One of the things I do is ask them, “what's your ecosystem strategy?” because it gives me some clues about how they're thinking about how they grow it, and what it means for them. I look at a company, do a quick analysis of the space that they’re in, look at their LinkedIn profiles, who they know, to whom they’re connected, where they're located, and whether they’re in particular hubs, which are basically locations that have built-in ecosystems that provide resources to these companies.

I think one of the great benefits of people going more remote and teams being more distributed is that a company can tap into multiple hubs. You may have somebody in Silicon Valley, but you don't have to have the whole team there. If you have people in locations that can help drive your commercial sales, your partnerships, or your hiring, there is a lot more leverage to that company than somebody who is in a very static location where they cannot tap into a support system. So, I tend to look at that.

Critically, I'll also look at their partnership strategy. What kinds of companies are they partnering with, and why? Is it for integrations? For channel sales? To improve their product and build a moat? I look at that very carefully. I also like to look at the competitive landscape. Who are they going to have to react to, or are going to have to try to one-up? What kind of dynamic is there in the space? Are there any kind of government or regulatory issues that could come to bear on them? Do they understand what they are? Do they know how to work that system?

Ultimately, as an investor, I know that somebody in the company's ecosystem is probably going to be their acquirer. So, are they thinking about the end game? Who could potentially acquire us? And how do I start building those relationships today so that there is some interdependency and exchange of value? A common, but bad strategy, is for a company late in the M&A game to ask, for example, “How do I cold-call into Cisco to see if they want to make a bid on us?” Ideally, if you want to generate multiple term sheets you need to be able to reach out to organizations you already have in your ecosystem that understand the value proposition.

AYLA: That leads us to one question someone posted in the chat. It's important for companies to build ecosystems. But when it comes to longer term relationships, and not necessarily like a GP and LP relationship where you want to raise multiple million dollars for your next fund, how does that fit into ecosystems? How does that GP and LP relationship contribute to the ecosystem?

JENNIFER: That's a great question. As investors, we have our own ecosystem. I tell every company, including us, that you have to start with understanding your status quo. What do you already have as an ecosystem? That includes your GPs, and sometimes even your family members. Maybe your spouse is a chief counsel at Airbnb, for example. So how do you tap into that?

Understanding your ecosystem involves knowing your GPs, your LPs and their own networks, your service providers such as your financial partners and lawyers and the hubs you're connected into. For example, at Mighty Capital, one of the things that makes us unique is we're the exclusive venture capital sponsor of a massive ecosystem called Products That Count, which is a collection of 300,000 product managers that share best practices, drive and attend events, build their personal brands and networks, and improve and perfect their craft of product management leveraging the platform that's available to them.

When we go to fundraise or are building our deal flow pipeline, that's when we most acutely think about our ecosystem. We find that in fundraising, it's valuable to ask questions like, with your current support base of LPs — who do they know? Who's in their ecosystem? Are they working with registered investment advisors, for example, who are already familiar with the fact they're invested in Mighty Capital? Do they have other clients who might be looking for venture capital?

With our co-investors, which are other VCs that we've invested with that are the same size we can collaborate on fundraising. Occasionally, we'll compare LP referrals. If we have LPs that are looking to diversify across this asset class, for example, how can we share into that? Those are some examples of it. Fundraising is where we as VCs really test our ability to tap into the ecosystem, and not just our network.

That's because when you're asking somebody if they know somebody who would be interested in the opportunity to invest in venture, there is a value exchange there. They're giving their contact access to something special, and you want to reach through them to get to that person or entity, to bring them into your LP network.

The one thing I would point out is that it's happening whether you're aware of it or not. The more you think about it strategically, instead of letting things evolve organically, the more efficient you're going to use your resources, and the more effectively you'll be able to go where the puck is going, so to speak. To be in the direction that you want to go in.

KENNY: That makes a lot of sense. If somebody is listening, and they want to think strategically about it and want to get started, what do you recommend? What are the first steps other than taking stock of what you have now? What are the keys to success in building a community like that?

JENNIFER: Start early. Especially, when you're a new fund or a new company, you have to start early to have an understanding of where the puck is going. And then, I think it's fun to do a mapping exercise where you sit down and map out your ecosystem. On our website, I actually have a blog post on ecosystems, which talks about the different kinds of entities that could be in your ecosystem. That includes your core team and your extended ecosystem.

If you map out what you already have today, you can get an idea of the status quo. It's much bigger than what we think it is, so it can be a fun exercise.

And then, start thinking about your goals that should be tied to a strategy. For example, maybe you find that you need more partnerships in the Boston area because it's a healthy place to invest in healthcare AI. So, who do we know? How do we get into that hub, and grow that side of our ecosystem? Start with where you want to go, and what the bigger overarching goals and strategy are.

Come up with a few initial things that you can do to grow that side of your ecosystem, and consciously think about those that you want to impact more directly. Also, you need to think about those areas that you're happy to organically grow. Obviously, you can't control the entire universe. So, you need to focus on where you can put your resources to make the biggest bang for the buck. It all needs to start from the top, and to be somewhat strategically driven.

Otherwise, you have a circus, where a firm has this ecosystem, and people are running around doing all kinds of initiatives that take a lot of time and resources but may or may not move the needle. So, you need to think about those measurable KPIs. And that can be really hard.

I used to work in strategic business development. And in a big company, people always ask, “what do those people do? How do you measure what they do?” Because sometimes, the return that you're getting on that investment is very long term. So, you always need to show what you're trying to achieve, sometimes in smaller chunks, to get to the bigger effort.

And then prune it. It's important to cut the dead weight and stop investing resources into things that are not producing results. That is the big difference between an ecosystem and a network as well. Who cares if our network has 3,000 people? In an ecosystem where you're investing a lot of resources and time into something, you want to feed the winners. You want to feed those relationships that bring you value and cut the dead weight.

AYLA: In your trial-and-error process of getting to the point where you're at today, what have you learned? What worked, and what didn't work? How do you do the pruning? Maybe some good war stories are appropriate.

JENNIFER: That's a good question. When we start especially complicated deals or relationships, we end up getting really invested in them because of the time and effort, and we start to lose objectivity. I think it can be good to bring in viewpoints from people who haven't been as close to the process, and to get their take on specific deals. We do this at Mighty Capital on deals that we invest in. We have three GPs in the investment team, and we would never have all three of us doing due diligence on the same deal.

Partly, the reason for that is so that somebody is a little bit more detached and can point out things that the others would otherwise not have looked at or considered. Another war story I want to share is when I worked for the encryption company. I put a partnership together, a joint venture with another company that was going to work with us on product development around e-commerce security and back-end financial transactions. These were the early days of e-commerce.

It took a year to put it together. Six months in, I could see they were not going to live up to their obligations on development and marketing. This is a war story because it was painful and expensive, and at one point I had to admit it wasn't working. Eventually, I had to go to our CEO and say, “I have to send a terminal termination letter to these guys. I think we really need to cut the cord.” It would have been easy to let it languish and pretend they were successes, but you have to make those hard decisions sometimes.

Another thing to be careful about is exclusivities. Some companies agree to exclusivities, but if you're going to do some kind of partnership or alignment with somebody where there's an exclusive relationship, you really need to think about what you're giving up in exchange for that.

When I invest in a company, I hate to see that they have some kind of contract with a long exclusivity clause because it's going to really limit their ability to get acquired. Unless it's six months with a giant to help build a product that they can then sell more broadly. In that case, it’s okay and may even help them build their moat. But you really need to think about what you're doing when you commit to things on an exclusive basis.

KENNY: Let's pick up on the other side of those war stories. What are some of the great success stories you've seen where the ecosystem has created really good results? You mentioned acquisitions a couple of times, so do share anything that pops to mind there.

JENNIFER: When a company partners with other companies, that runs a spectrum of simple to complicated aspects. On the simple side of the spectrum, an example is signing up for AppExchange on Salesforce, or loose, cookie cutter programs which are low effort, low risk, but the returns aren’t so big. On the complicated side, you’ve got things like that joint venture I mentioned, which can be a big success that alters your trajectory. You don't even have to be a big company like Apple.

When Apple created the iPhone, they didn't just iterate on the iPod. They created an ecosystem of content that created experiences that made people want that iPhone. I remember that back then, U.S. carriers were saying that no one will ever pay more than $150 for a phone. But now, you don't even feel like you’re in the middle class if you don't have a $1,000 iPhone in your pocket.

That’s because of the ecosystem. It's not just for the product and the hardware. It's what you can do with it. You don't have to be Apple-sized to take a page out of that playbook. We have a portfolio company called Canela that has a service called Canela TV. It’s a streaming platform that provides over-the-top streaming video content for Spanish speaking people in the U.S. with culturally relevant content.

Before they launched the service, they set up an ecosystem of the library, and they went across the world and found the best Spanish language content from multiple countries, not just Mexico, which is what most providers do. They set up a lot of the great content, and they launched with a ready-made ecosystem. As a result, their growth has been phenomenal and exponential. Now, they're expanding into Latin America. They're also expanding into music. They’re building a big content ecosystem there, and they’re also planning to expand into Brazil, which means providing Portuguese content.

You can take a playbook from what these big companies have done without being Apple-sized. They were able to bring that value to the table right away, instead of just launching a product and then filling it with content, which is maybe what Nokia did back in the early smartphone days, to be honest. They just went, “Here's our beautiful product. Now, people will fill it with content”. It didn't quite work, once we got beyond text messaging and basic browsing.

AYLA: I think over the last few years, there has been a lot of hype around automating community building, or how you could put rails behind it in a more technology-driven way than just humans doing things. What have you seen work in terms of automation, or using technology to build ecosystems? Is it worth doing? Or is it still just a labor-intensive piece of work, and we can't put a bot to do all that hard grinding out?

JENNIFER: That’s a great question because community building is one of the biggest job growth areas. It’s really hard to find people who have any experience in it. And I feel like now, more than ever, it's all about the community you’re building. A lot of brands are trying to take back the power of their community. They don't want Facebook or the Metaverse to own it. They’re thinking about how they can take that back and really own the relationship with their users.

I’m definitely seeing more automation and digital transformation in that area. There still has to be a human touch in terms of what you're providing to that community. You can definitely automate the pieces, but you have to make sure that there's unique value, a unique voice, or a human feeling and touch to it.

Otherwise, you may have a community of, say, a billion people, but how many are actually actively engaged or care? Definitely a lot of these legacy systems have bigger numbers. Yahoo probably still has a billion users, but who's using it?

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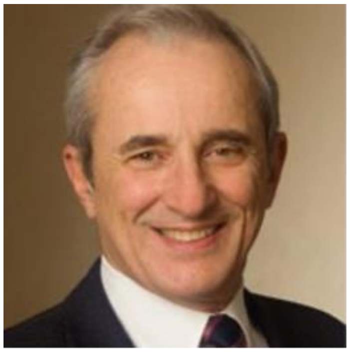
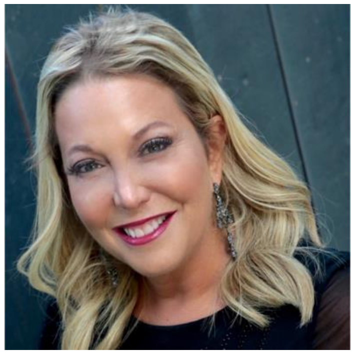


Dennis Chookaszian
Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis discussed how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. Read on



Susan Brazer
CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan talked about the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. Read on

Raj Mukherjee J.D.
VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. Read on

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