Masters of Scale Episode Transcript: Daymond John part 2

“Part 2: How to partner like a shark”

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REID HOFFMAN: Welcome to Part 2 of my conversation about authentic partnerships with FUBU co-founder Daymond John. If you missed Part 1, go back and listen; it’s in your Masters of Scale feed.

Previously, Daymond told us about the rise of FUBU from a one-man operation to an iconic streetwear brand. But Daymond has another claim to fame — as one of the founding cast members of ABC’s “Shark Tank.”

So think of Part 1 as Daymond’s journey to becoming a shark, and Part 2 as the story of how he learned to operate like one. It’s a journey that will take us far from his hometown of Hollis, Queens, to LA, to Hollywood, even to a memorable collaboration with the Kardashians.

This chapter begins in 2008. By this time, Daymond had not only scaled FUBU, but had become an author, investor, and occasional presence on cable TV.

DAYMOND JOHN: I had just done Donny Deutsch's “The Big Idea,” or something like that. I come into my office. At that time, we still had all our office phones where our executive assistants would listen to the messages. I would have 80 a day, and they would all be how they could spend my money.

HOFFMAN: Every time Daymond made a TV appearance, it tended to generate some calls. But one day, there was a call Daymond wasn’t expecting.

JOHN: One was by Mark Burnett, or a producer for Mark Burnett.

HOFFMAN: Burnett was — and is — one of the founders of modern reality television. And he was calling to talk to Daymond about a new idea he had, creating an American version of a show about entrepreneurs.

JOHN: “It's a Sony property. It's originally called ‘Dragons’ Den.’ It was in London, Japan, and Canada.”

HOFFMAN: “Dragons’ Den” had been a big hit outside the U.S. But Daymond was a bit skeptical when he heard the pitch for the American version, called “Shark Tank.”

JOHN: They said, "You're gonna come on."

I said, "All right, what am I doing?"
"You listen to pitches."

I said, "Okay," and they said, "Well, then you're going to spend your own money and invest in these pitches. And we average out, we think you're going to spend about a million dollars a year."

And I said no. And I said goodbye. And then I said to myself, "These people are crazy."

**HOFFMAN:** It's understandable why Daymond thought this partnership made no sense. It sounded like paying a million dollars for the dubious privilege of going on television.

**JOHN:** They told me that initially Mark Cuban was going to be on the show. I was like, "That guy, the billionaire guy is going to be investing in sponges? This is crap."

**HOFFMAN:** This was also at the start of the Great Recession, which was wreaking havoc on Daymond's portfolio, along with everyone else's.

**JOHN:** We feel it in the clothing industry before anybody else when the Great Recession was coming around, because nobody buys another shirt if they can't pay their mortgage. I said, "I'm only getting pitched clothing companies, and I have to diversify my portfolio. I'll go on the show."

**HOFFMAN:** Daymond's hopes for the pilot were modest at best. What he really wanted was to pitch some show ideas of his own to Mark Burnett.

**JOHN:** I go to breakfast with Mark Burnett to tell him my three beautiful ideas because I was going to come up with the next "Gone With the Wind." He knocks down those ideas before, I think, even the orange juice comes.

**HOFFMAN:** OK, so the exact partnership Daymond had planned for didn't work out. But to his surprise, "Shark Tank" did. In fact, it became a world-class TV show, bringing entrepreneurship lessons to aspiring founders and families alike.

Daymond himself would become known as "The People's Shark," and gain a national platform not just as an investor, but a mentor and business leader.

In short, it would become one of the defining partnerships of his career. And it happened because Daymond and the other Sharks eventually found alignment between their goals and the goals of the show — even though that alignment isn't immediately obvious.

That's why I believe the best partnerships are built on authenticity and alignment — even when that alignment isn't initially obvious. Leaving room for unconventional opportunities means each partner has space to learn, and expand their networks.
HOFFMAN: I’m Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe the best partnerships are built on authenticity and alignment — even when that alignment isn’t initially obvious. Leaving room for unconventional opportunities means each partner has space to learn, and expand their networks.

In Part 1 of my conversation with Daymond John, you may remember that I likened strategic partnerships to certain delightful combinations of food. Because some partnerships really do go together like chocolate and peanut butter or chicken and waffles.

But what about those other pairings that may seem like more of an acquired taste? Think: pickles and ice cream. Lots of mutually beneficial partnerships look unlikely at first, and for that matter, some partnerships that seem like no-brainers end up collapsing. Not every odd-couple partnership is a good one. But unconventional pairings leave room for incredible opportunity across your networks, so long as each party is actually aligned on goals.

Daymond John understands this, both as an entrepreneur and as an investor forging partnerships in front of millions of viewers. And we’ll be getting back to his Shark Tank trajectory in a moment. But first, let’s reflect on a story Daymond told us in Part 1.

You may remember this story he shared from FUBU’s early days when he and his co-founders partnered with small business owners across New York and New Jersey. FUBU wanted free advertising with local shopkeepers. And shopkeepers had problems keeping rust and graffiti off their security gates.

JOHN: So, we spray-painted 300 gates from New York to New Jersey, put “authorized FUBU dealer.” I don’t care if you were selling furniture or Chinese food. You were an authorized FUBU dealer.

HOFFMAN: This partnership between FUBU and these local shops was both unconventional and inspired. And this was exactly the kind of strategic alignment Daymond and his partners sought as they scaled.

You may also remember that FUBU’s first major scale partner was Samsung Electronics — an unusual choice for an up-and-coming apparel brand. But it worked, and it led to FUBU’s scale. By 1998, sales of FUBU reached over $350 million. And that’s more or less where we left Daymond at the end of Part 1.

HOFFMAN: Now, if this was a Hollywood story, this would, of course, be the ride in the sunset, and it’s kind of all clean sailing from here. But, instead, you really started expanding, and all of a sudden, it was kind of like, “Oh, shit! I’m getting over my skis.” Say a little bit about those experiences.
JOHN: So, as we started expanding, I felt very comfortable about our ability and our capability to make other products. I acquired a young company called Heatherette, two really amazing designers who made really great custom clothing for runways, and they had all the right things. They were like the FUBU of the young women's industry, a guy named Traver Rains and Richie Rich, and they trusted us to do the right thing with their brand.

HOFFMAN: On the surface, this acquisition of Heatherette made all the sense in the world. FUBU's streetwear styles had focused on male and unisex fashion. Partnering with Heatherette could potentially double their customer base! Their goals were totally aligned.

There was just one flaw in this plan. And it was a big one.

JOHN: Women's clothing is not the same. Women, their clothing is very close to their body, so the measurements have to be extremely accurate. It's not like a man who you could be an inch off on the pants, and nobody would notice.

Then, of course, I talked to my manufacturers and because I'm doing a hundred million dollars, this one denim manufacturer, I say, "Hey, make ladies' jeans." He or she would say okay. They'll try to figure it out later. They're not going to tell me that they don't know how to make it.

HOFFMAN: In the rush to make this partnership work, some crucial details fell through the cracks.

JOHN: So, all of a sudden, I spent six million dollars making a bunch of this product that I didn't know how, and Traver and Richie, the ones that I invested in, they were probably like, "Well, the guy's successful. Let me listen to him." We lost six million dollars because we didn't know what we were doing.

HOFFMAN: Fundamentally, Daymond and his team had misdiagnosed their strengths. This is actually a common mistake at scaled companies. You can find the evidence in the failed product launches of otherwise successful organizations. (Think Crystal Pepsi, or the first iteration of Google Glass.)

In fact, it's more common for entrepreneurs to misdiagnose the root of their successes than the root of their failures. Why? Because when you're failing, it's hard to fool yourself about why. You might not know which of the five or six possible reasons is the one that's causing you to struggle. But ultimately the right answer is probably on that list.

But when you've enjoyed massive success as a company, it's easy to tell yourself, "Well, it's because we're good at everything." And that's rarely actually true.
You might owe your success to your marketing genius; or maybe your edge is in predicting market timing. But whatever it is, if you forget which specific expertise led you to victory, you may end up generalizing back to, “Because we're geniuses!”

And that tends not to be the best attitude for partnerships, as Daymond found out.

**JOHN:** I got cocky about it. We were so cocky that we started to tell the stores: “You have to buy a pre-pack. We're going to sell you a 12-pack of jeans, and there's two 32s in there, two 34s, all the way up to 40 or 42.”

They would say, "We don't have customers that size."

"I don't care. Take the goods. That's your problem. I don't care if you only have people that come in your store that wear 32 and 34. If you don't, then we're not going to sell you. We'll sell the guy down the block."

**HOFFMAN:** In the short term, retailers agreed to take the 12-packs of FUBU merchandise.

**JOHN:** They took the goods in. They would sell the 32s, 34s. They would pile all the other 36, 38s and 40s up in the corner. A kid comes in six months later and says, "Why is that FUBU over there $80, and that's over there for $5? I'm not buying this crap anymore."

**HOFFMAN:** Unsold FUBU overran the stores, and brand erosion set in. Fans moved on. And FUBU's rivals were right behind them.

**JOHN:** The other competitors came in, and you know what they said? "I will give you as many 32s as you like."

**HOFFMAN:** Not only had Daymond and his team misdiagnosed their core competencies, they had started to take key partnerships for granted. FUBU had once been in tune with their retailers. Now, their respective interests had become deeply misaligned. Rather than the win-win scenario you want in a partnership, they were making decisions that were lose-lose.

And FUBU ended up paying the price.

**HOFFMAN:** So then, where did that all then lead to? What was the consequence? How did you learn those lessons and correct?

**JOHN:** Well, what that led to was us doing some real soul searching on what our inventory was and what our capabilities were. Our capabilities were not that we were great designers. Our capability, we were great marketers. Had direct pipelines to buyers, manufacturers, and we knew all the artists.
HOFFMAN: This was a critical piece of self-discovery Daymond and his partners made. Knowing your own strengths is not always easy. But it’s the necessary bedrock of a solid strategic partnership.

Once FUBU fully absorbed that lesson, they leaned into their expertise — namely, creating refreshing partnerships with artists.

JOHN: We would still always try to think outside of the box and add different tentacles to the way that we were doing things. So, in 2001, we decided to create an album. Not an album of us. The album was of new artists and known artists.

HOFFMAN: This compilation album, called “The Goodlife Album,” was produced with Universal Records. It featured artists you heard mentioned in Part 1, like LL Cool J, as well as Ludacris, Nas, India.Arie, and others.

JOHN: We wanted the kids to understand that we were much different than other clothing companies. We actually lived the culture.

HOFFMAN: The album itself did not turn a profit. But as a strategic loss-leader, the album was effective.

JOHN: We had a single called “Fatty Girl.”

HOFFMAN: The song was produced by an early-career Pharrell Williams, and features Ludacris and LL Cool J, with Daymond John himself popping up in an uncredited cameo. The lyrics feature FUBU, and jeans, as well as the first documented use of the word “badonkadonk.”

In the strictest sense, this is branded content. But it plays, well, like a hit song.

JOHN: I remember us selling 80 million dollars’ worth of Fatty Girl jeans. We were always thinking scrappy on: How can we show our consumer that we are really in this business? We’re just not stamping a name on something.

HOFFMAN: For all of the partnerships FUBU discovered they didn't do so well — for example, making women’s clothes with nuanced sizing — this was a collaboration they were able to pull off with panache. Because of their creative partnership’s innovations with artists and culture-leaders, FUBU was able to stay true to their name and motto. They made things, quote, “For Us, By Us.” Their partnerships with artists only deepened, based on authentic alignment and a dash of the unexpected.

This new understanding of win-win partnerships would soon guide Daymond as an investor and a Shark.

[AD BREAK]
HOFFMAN: We’re back with Part 2 of my conversation with Daymond John. If you’re enjoying this episode and want to share it with friends, send them the link mastersofscale.com/daymond2. That’s D-A-Y-M-O-N-D, and the number 2.

And to hear my full conversation with Daymond, become a member at mastersofscale.com/membership. There, you’ll hear about even more partnerships we couldn’t get to in this episode, like Daymond’s work with Shopify. You’ll also learn Daymond’s signature approach to branding in 2-to-5 words. You won’t want to miss it.

Before the break, we were talking about unexpected partnerships that accelerate scale. And in the early 2000s, that’s what Daymond came to specialize in. As a response to market saturation, FUBU started to withdraw from the U.S. markets in the early 2000s, concentrating abroad. And stateside, they leaned into acquiring new brands, whose names hadn’t had a chance to dominate the streetwear scene.

JOHN: We bought four or five other brands, then we bought a brand out of bankruptcy called Coogi. It was an Australian brand. Biggie Smalls used to wear it. Then we replaced the same FUBU pipeline with the Coogi brand.

We also bought Etonic, the footwear company, and various other things and used what our real capability was: real great marketers and manufacturers.

HOFFMAN: Just as when they had first scaled FUBU, Daymond John and company brought their scrappy marketing instincts to bear, armed with the knowledge of what they actually did best. They knew how to create inspired and unexpected partnerships that would elevate a brand … even when that brand bore a name that wasn’t FUBU.

Take Coogi, the brand Daymond just mentioned. Coogi had a truly unique road to revitalization, thanks in part to one inspired partnership.

The story begins with Daymond mentoring a female-led, family start-up. Three young women had a clothing boutique with ambitions to open another. They also had a reality cable show.

Daymond co-managed the young women and would appear on screen from time to time. He also handled product placement for the show.

JOHN: I walked them around to all my designer friends and said, "For $75,000 this whole family will wear your clothes the whole year." They said, "They'll never be anybody." So I paid the $75,000 and put Coogi on everybody.

HOFFMAN: This is a natural alignment of Daymond’s partnerships. He got exposure for Coogi, the brand he co-owned. And he got his young clients designer clothes to wear. As with the best strategic partnerships, each side helped the other amplify what they could do for each other.
But this partnership didn’t end with product placement. Daymond was committed to this family and wanted to help them succeed as entrepreneurs. And when Daymond was tapped for “Shark Tank” in 2009, his partnership with their show became a sticking point.

**JOHN:** Contract comes over: “Can’t do any other show but ours.”

I said, "I'm mentoring three girls who are going to open up a store in New York. I'm going to be on their show three separate times, three minutes a piece."

They said, "You can't do any other show but ours."

I said, "Goodbye. Thank you, I appreciate it."

**HOFFMAN:** You heard that right — Daymond turned down his “Shark Tank” offer to honor his commitment to this family business.

News of his choice traveled fast.

**JOHN:** Get a call from somebody in Hollywood, a book agent, not even my agent. He said, "I heard he gave up a ABC show with Mark Burnett for three girls that nobody will ever hear of called the Kardashians."

**HOFFMAN:** Now, of course, we know that many, many people would come to learn the name Kardashian. And Daymond’s bet on them was massively prescient, to say the least.

**JOHN:** If you ever look at the Kardashians, the first two seasons, they're wearing that brand I told you about, Coogi.

**HOFFMAN:** At the time, though, the people closest to Daymond assumed he was making a big mistake. Including a Kardashian herself.

**JOHN:** Khloe Kardashian found out that I was turning down “Shark Tank,” because I was really tight with her, and I was co-managing her. She fired me.

**HOFFMAN:** Ha ha!

**JOHN:** She said she believes that the world needs to know who I am.

**HOFFMAN:** Khloe Kardashian fired Daymond to release him to this other, bigger opportunity. Such was the authenticity and strength of their partnership.

In fact, a great test of strategic partnerships is, would you be happy if only your counterpart found success? This isn’t about one side winning at the expense of the other. Rather, it’s about
taking the long view of asymmetric growth. If you gain a little, but your partner gains 10X more, that's still a win on both sides.

A healthy partnership can not only tolerate uneven growth, it can celebrate it. When one partner succeeds, the other is often soon behind.

It's this spirit of mutually beneficial partnerships that would drive “Shark Tank” to its success. Because, of course, Daymond did eventually accept the show's terms.

But in the beginning, success was not guaranteed.

**JOHN:** People didn't know what “Shark Tank” was. They didn't understand it. It was very hard to promote the show for the first three to four or five years because people would say, "All right, well, when do you get the money? Who wins?"

**HOFFMAN:** If you're a regular “Shark Tank” viewer, you already know the answer. Several contestants can win on “Shark Tank” over the course of a single episode. What's more, the Shark wins too, if one of their investments hits big.

But to Daymond's eye, in the beginning there were some inefficiencies in how entrepreneurs got booked on the show.

**JOHN:** The casting agents were casting agents. They didn't know about companies. They didn't talk about what you and me and the rest of our fellow sharks are doing. They didn't know what margins were or what distribution was, or convertible notes or bridges or mezzanine financing. They didn't know any of that stuff.

**HOFFMAN:** Once again, it was time for an honest evaluation of core competencies. Whereas Daymond and the other sharks had clear expertise as investors, that expertise wasn't necessarily translating over to casting. Because casting directors have very different core strengths! They know how to find people who are engaging and tell their story well. But they would need to learn from the investment experts on their show how to also select contestants on the viability of their businesses.

Another relationship that needed to evolve? The one between the Sharks and the contestants. In the beginning, Daymond remembers a focus on simply how much they were choosing to invest.

**JOHN:** Us as the Sharks, we thought this was just a financial play. "Hey, we'll give you 20, we'll give you 50." But these people needed coddling like a start-up does. Everyone has a different need and we didn't have the staff to man that. So the deal where we were closing was about 30% closure.
HOFFMAN: The start-ups who went on Shark Tank didn’t just need financing from their investors. They also needed mentorship and support.

And something that’s unique to “Shark Tank”: for founders, the act of fundraising is also the act of building a network. Every source of finance you approach will have valuable knowledge, resources, and networks of their own. And all of these resources are just as valuable to your growth as the money itself.

The investing moment is a moment of crystallization. You’re constantly articulating to anyone who will listen why you and your mission are a great bet. And you waste that moment if all you get out of it is the money. The partnership is just as necessary, if not more so.

As “Shark Tank” progressed, Daymond and the other Sharks started to recognize just how important this aspect was to their aspiring entrepreneurs. And the more expertise they shared, the more the “Shark Tank” deals started to yield.

JOHN: As the years went on every season the closing rate got higher. I would hire licensing people. I would have more sales people. I would be more in touch with manufacturing. And I also would now ask, “Well, what's the use of proceeds? What's the use of funds?” And make sure that they stayed on track.

And now the show's grown to closing, we're trying to close about 80% every year. We would love to close that and really great entrepreneurs who are doing big, big, big business.

HOFFMAN: In fact, several of Daymond’s most lucrative investments started out as “Shark Tank” contestants!

JOHN: One is Bubba's-Q, it's boneless ribs. Another one that I really love is called SunStaches.

COMPUTER VOICE: Sunstaches: Costume sunglasses.

JOHN: Very simple, but in this Instagram world, when you put these eyeglasses on they have every license ever: Marvel and Peppa Pig. It's very Instagramable.

HOFFMAN: And then there was one of Daymond’s favorite investments: Bombas.


The product is king. It's very comfortable. And more importantly, they give away a pair of socks, and now they've grown to underwear and T-shirts. Every time they sell a pair, they give it to the homeless, and they've given away over 50 million pieces to those in
need. So it feels good from what it's doing. It's just amazing. It's educated me, and that's what I call reverse mentorship.

HOFFMAN: I love this idea of reverse mentorship, and it doesn't get enough attention. The best mentor-partnerships aren't just one way. Almost every thinking VC has experienced this at least once — investing in a founder that is so sharp and insightful, they end up teaching you.

What Daymond learned from working with new founders on “Shark Tank” was, he needed to create a scaffolding to help them, doing what he did best. So he created a brand management and consulting firm. He called it The Shark Group.

JOHN: So the Shark Group really tries to help with, whether it's brands or personalities. Or whether it's curriculums or any of my strategic relationships.

Myself, I'm a client. We really did it because listen, when you're bringing in a lot of these start-ups they're going to need everything. And we need a group that was behind that.

HOFFMAN: After being an entrepreneur in need of a strategic partner, Daymond is now being that partner to the start-ups and scale-ups he’s invested in, as well as to anyone who’s read his books, watched his show, or taken his advice.

And recently Daymond has been partnering with other platforms whose mission is to empower entrepreneurs. And we invited one of them to tell their story.

CHRIS RONZIO: It started with an event that we were hosting. It was in the middle of 2020. We reached out to Daymond as a keynote speaker. We thought, “How are we going to connect with him remotely when normally you bring a speaker in, and you talk to them in the green room.”

HOFFMAN: That's Chris Ronzio, founder and CEO of Trainual, which creates onboarding and training software for companies.

RONZIO: What Trainual does is help write down and formalize the company way of doing things, and then it lets every person in the company suggest new best practices that you can roll out across the team.

And so it's all about alignment.

HOFFMAN: Chris and his team wanted a way to align with Daymond before he started his keynote address. So they surfaced a moment to share with him, from deep in Chris’s past.

RONZIO: When he came on to the live event, I had this newspaper clip that my mom sent me from when I was a little kid, and it was me and a friend of mine wearing FUBU
jerseys on stage at our middle school talent show throwing out Monopoly money and rapping. And so we had these jerseys on, and that's what I showed Daymond as soon as he joined.

So he's laughing. We're talking about the jerseys I had and the graffiti I put in my childhood basement with his FUBU logo. And so we hit it off.

HOFFMAN: When it comes to showing a guest your respect and love of their work, it's hard to get more authentic than a 20-year-old picture showing yourself wearing their brand.

RONZIO: After the event, he and his team said, "We like what they're doing, how do we get involved?"

HOFFMAN: Think back to Part 1 of Daymond's episode when he and his partners stood outside LL Cool J's house, hoping he'd wear their logo. In a way, the story has come full circle with a new partnership forming around a shirt, and a shared mission.

JOHN: I was impressed by the work they were doing. They were saving people time. And time is the only thing that you could sell people, and it's the only thing you can't get back.

HOFFMAN: Within a year of that first meeting, Daymond became a spokesperson for Trainual, a content contributor and, eventually, an investor.

RONZIO: We started the conversations. Is it a marketing partnership? Is it an investor relationship? Is it an affiliate relationship? What's the right path to go down? And what we ended up on is that it's kind of all of those things. It's like there's a lot of ways that we can benefit each other.

HOFFMAN: At essence, this is what makes for an ideal strategic partnership. An authentic alignment of mission is what guides it, more than checking off one or two specific boxes.

In fact, you might say that the more aligned the partners are, the less the actual structure matters. Which doesn't mean you shouldn't legally define that structure — only that it shouldn't come first. Instead of the contract driving the partnership, the partnership dictates the contract.

RONZIO: We've had a lot of partners approach us wanting us to sell what they have. And I think when a partnership is really all about sales, it's transactional, and transactional partnerships don't really succeed. You can have sales as part of a partnership, but it's got to really fit in and make sense and not be all about how do we add this to the receipt and charge another 10% for this and pay a commission here? And I think when it becomes just about the money, then the partnerships are really fake. They don't last long.
If you're just after one win, win-win can feel even transactional. But when you've got something lasting, like you create a partnership that leads to introductions, that leads to other open doors, that leads to other networks, then it's a series of wins that you couldn't have even predicted.

Then your customers know it's not just a transactional thing. I'm not being sold, I'm being helped. And I think that's how good partnerships work.

HOFFMAN: That's exactly right. Good partnerships transcend the transactional. They can take on unconventional structures; they can be unexpected. They can last for years, or as long as a single event. What's important is that all parties are aligned on mission, and pulling in the same direction.

JOHN: As entrepreneurs we don't wake up as a manufacturer, an advertiser, a training course, an accountant, a warehouse manager, a retail, all these types of things. So, you need a strategic partner.

HOFFMAN: I'm Reid Hoffman. Thank you for listening.