INVESTOR SPOTLIGHT: FOOD SYSTEM 6

FINDING MARKET-BASED SOLUTIONS TO IMPROVE EQUITY, HEALTH, AND SUSTAINABILITY IN THE FOOD SYSTEM

In February 2014, the governor’s office of California hosted a meeting welcoming investors, food industry veterans, and other stakeholders, to pose a pie-in-the-sky question: How can we adapt the best practices of Silicon Valley around supporting innovation and entrepreneurship to have a direct impact on the health and sustainability of our food system?

From that meeting was born an organization that today fills a novel role in the food innovation landscape. Food System 6 is a non-profit, impact-focused accelerator, backed by the Robert Wood Johnson Foundation, the William K. Bowes, Jr. Foundation, Susan Rockefeller, and John and Timi Sobrato.

Food System 6 is part investment bank, facilitating the flow of capital to select startup teams; part think tank, consulting for a wide range of partners on issues across the value chain; and part accelerator. It connects entrepreneurs with “the mentors, diverse networks, capital, capacity building and community perspectives needed to further prove their concept, build their ability to scale, and maximize their success,” as its leadership wrote in the program for a forum they held earlier this year.

From October 2016 to February 2017, Food System 6 ran its first cohort of startups—nine teams, selected from over 70 applicants. This cohort included: Blue Farms Hawaii, an aquaponics farm working to alleviate stress on ocean fish stocks and the state’s reliance on imported food; Emmer & Co, a heritage chicken producer based on regional production hubs and humane, environmentally positive practices; Equitable Food Initiative, a non-profit organization optimizing compliance with food safety standards in tandem with farmworker conditions; Tiny Farms, a company building scalable insect farms as an alternative for animal feed and fishmeal as well as a protein source for people; and PastureMap, a data-rich grazing management platform for ranchers to sequester carbon and boost soil health, land water holding capacity, and biodiversity.

Along with their unique perspective and organizational structure is their unique investment strategy. “We are a non-profit organization that has an investment thesis, so who we are in the ecosystem is a little destabilizing...in a healthy way,” says Renske Lynde, co-founder and managing director of Food System 6.

That thesis was informed by conversations with over 500 food system entrepreneurs, held across two years, to understand how to best lend value to entrepreneurs. From there, they developed three filters for selecting startups to support: They place equal weight on environmental health, social health, and physical health. It’s a far more holistic approach to supporting new companies than is typical in the current investment arena.

“There is a lot of dialogue right now about whether food and ag tech will be the next bubble,” says Lynde. “There is a huge market, and a significant need, for entrepreneurs to disrupt and improve our food systems. But the type of capital will need to look quite different from capital in other domains. The food system is incredibly complex, highly regulated, and heavily interconnected. Underlying that system are living beings. And growing cycles. Those [elements] just extend the need for earlier, more patient capital that is not bound by the traditional venture format.”

Their investment theory centers around a “dynamic capital stack,” also known as blended capital, collaborative capital, or layered capital, which all refer to a mix of types of capital that have different objectives. These range from venture capital and other investment funds to government, foundation, and university grants.

Food System 6’s approach is informed by the accumulated wisdom in Silicon Valley for supporting entrepreneurs, yet aims to avoid the pitfalls of the instant gratification mantra. It’s related to a new idea in the startups investor community, proposed in 2017 by James Joaquin of Obvious Ventures, which is called the World Positive Term Sheet. This is a new tool in the toolkit for capital providers who are impact-oriented. In a blog post unveiling the idea, Joaquin wrote, “let’s add a page to the Term Sheet that codifies the core values of the company. We call this the World Positive Term Sheet ("WPTS"). The WPTS is not intended to affect the legal investment documents...instead the purpose of the WPTS is to make sure investors and founders are aligned early on key values that will determine how company leadership makes both strategic and tactical decisions in the years to come.”

As a think tank, one of Food System 6’s most groundbreaking ideas is the one behind its name: the idea of the sixth iteration of our global food system. As you can see in the diagram below, Food System 1 through Food System 5 traces the evolution from hunting and gathering to the early domestication of animals, to selective breeding, the Green Revolution of mechanized farming and synthetic chemicals, through the industrial food system we currently inhabit, which is characterized by mass scale, standardization, and long supply chains. In the aspirational Food System 6, Lynde and her team envision incorporating many of the best elements of previous food systems, which they call “incremental improvements,” along with new disruptions in technology and biology, energy and financial models, etc. Under the new system, the value chain is perceived as evolving toward more of a value cycle. Among other things, that value cycle is characterized by feedback loops such as turning waste into “upcycled,” “value-added products,” and by regenerative agricultural practices.

The buck doesn’t stop there, though. Food System 6 is also a partner in developing an innovation pipeline of market-based food system solutions. Its leaders collaborate on research and nurturing innovative business ideas with corporate partners and academic faculty at universities, in addition to providing relevant expertise on business competitions.

Once Food System 6 has a few more cohorts under its belt, it will expand to the domain of influencing policy. “Our teams function as living laboratories about the trajectory of the food system, as many of them will bump into road blocks for scaling that are policy or regulatory in nature,” Lynde says. “That database and repository will give us really good raw data to shape advocacy around.”

In sum, what we know for sure about Food System 6 is that, in 2017, its approaches are rather unprecedented. What remains to be seen is if they wind up sparking a whole new modus operandi in the investor community at large.