FINTECH ONE-ON-ONE PODCAST 386-CHRIS TSAI

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Peter Renton: Today on the show, I'm delighted to welcome Chris Tsai, he is the CEO and Co-Founder of Resolve. Now, Resolve's a super interesting company, they are in the B2B payment space and they've sometimes been referred to as a business BNPL, but I think that doesn't really describe the complete picture of what they do. They really are more of a credit management solution for B2B, which we get into obviously in some depth in the show, it's quite an extensive suite of products they offer and we talk about that.

We talk about the founding story and the involvement of Max Levchin and how all that kind of really helped set the company on its way, we talk about the underwriting piece because that's critical and that's something that is not an expertise of most businesses so getting expertise there is really helpful. We talk about the economic cycle and how things are changing, we talk about buyer journeys and much more. It was a fascinating episode, hope you enjoy the show.

Welcome to the podcast, Chris!

Chris Tsai: Thanks, Peter, good to be here.

Peter: Okay, good to have you. So, let's kick it off by giving the listeners a little bit of background about yourself, tell us sort of your career journey before you got to Resolve.

Chris: The thing that people would notice fairly quickly about me is my relationship with Max Levchin, the Co-founder of Affirm. He had invested in my last business which was a pre-order and payments e-commerce platform called Celery, but I remember very clearly we met at the Y Combinator Demo Day of 2012, the winter batch, and we basically had at that time been aware that Max had started his company at that time which would become Affirm, but it was named prior to that interaction as this very awful name, Expedite.cc, thankfully, they changed the name really quickly (Peter laughs).

He was looking at that time already to experiment with ways to test the idea of a loan and a checkout and so we had already built an e-commerce platform with a checkout and so the interesting way that my relationship with him started first as an angel investor then quickly thereafter, after he had invested, he had his Head of Product at Affirm reach out to us and say hey look, it's not obvious to us that this is going to work, but we definitely want early adopters and Chris and his team seemed to have a number of consumer-facing merchants that might be open to trying a loan and a checkout, let's try to strike a product partnership with them. So, I remember very distinctly, we ended up agreeing to, since we did a survey of our merchant users at that time, hey, how many of you want to try this idea of growing with offering a split payments installment loan in checkout so that the more expensive items you're offering can, in fact, become more affordable and most of them said yes.

So, we ended up becoming the first e-commerce platform to offer Affirm as a payment method and all the promises of what everyone now knows to be true with buy now, pay later, came true very rapidly. We started seeing 20,30,40% lift in e-commerce sales very quickly and the ‘aha moment’ that eventually became Resolve was as the Affirm button was really working for these consumer merchants, a very large portion of them had a business, commercial or wholesale component to their business which they said, I love Affirm and what it's doing for that business, where is the equivalent of Affirm for B2B because I would love to use that so we ended up bookmarking that thought for the future.

We ended up selling our business eventually to Indiegogo, this crowdfunding platform and in the intervening time when my co-founder and I were thinking about what our next venture to build when we catch up with Max and were reviewing all the things that we had discussed early days and future, we mentioned the idea of a B2B Affirm and the answer he immediately came to was well, that would be an amazing sister spin-off company. We don't have any plans to do anything B2B-related for decades or more given how long the consumer roadmap is for our business.

But we can return you the favor since what happened was about two or three dozen merchants ended up using Affirm as a result of our partnership so he felt like he could send us the equivalent back as we were starting the idea that would become Resolve, anyway, that's how we got started. My career, to answer your first question, was really around finance, startups, that background ended up leading to my first entrepreneurial journey which was that last business pre-order payments and this very natural evolution to what now is Resolve. So, that's two answers in one.

Peter: Right, right, okay. So then, I see it referred to that Resolve has spun out of Affirm so does that mean that you spent the early days as you were sort of incubating this idea inside Affirm, like were you kind of working in tandem with some of the Affirm people, how did that actually work?

Chris: We did spend time inside the offices at Affirm after we had sold that first business and we were thinking about building the next one. Max has a venture studio which is called Hard, Valuable, Fun which is his philosophy for startups, it has to be hard, it has to be valuable, it has to be fun to build this venture so that venture studio was co-located inside Affirm's offices. This spin out effort was a unique situation where it wasn't just a new venture, it was very intimately connected to the Affirm concept so the incubation and spinout process was through the startup venture studio, HVF.

But what we ended up doing was because of how much business was being referred to us when we launched the entity itself, Affirm participated in the funding of that venture so that's how we think about the concept of the spinout. So, the employees that were working with us as part of that original partnership that we’d done over the last company, they were still around, many of them were really excited to see the effort that they had, the relationships, the business that we had referred to them then become sort of this reverse benefit to them as they invest in this business that would spinout from Affirm.

Peter: Right. So, like is Max an advisor to your firm, what's your relationship with him now?

Chris: He's still closely connected to what we do at Resolve, we definitely catch up with him regularly. He's part of Resolve's founding effort, if you will, and so from that point of view and from their ownership stake in Resolve, there's still a very close founding and advisory relationship.

Peter: Right, right, okay. So, let's move on to what you guys do exactly. You've prefaced it a little bit, but how do you explain exactly what Resolve does.

Chris: Yes. So, if you look at the B2B transaction surface area that's possible between a business seller and a business buyer, the majority of the work centers around this invoicing process, right. So we tend to think of, and the original insight really from the time we spent looking at what the pain points were for business sellers and business buyers, invoices in particular net 30, that 30, 60, sometimes 90 days you're waiting to get paid by your business buyer forces you to be a bank to that seller to your own buyer, right, so there's at least four different steps that you have to contend with.

First is the credit checking step where you have to underwrite and approve your buyers for a credit limit of some sort. The second step is rolling that buyer into a net terms program where they have now credit to make purchases from you. The third step would be collecting the payments, sometimes having to chase payments that are slow or delinquent. Lastly, the step would be taking those payments, processing them, and in many cases if there's partial payments, reconciling them to a ledger.

So, the end-to-end workflow of a business transaction via a net 30 invoice or does not have to be net 30 necessarily, we provide all four of those steps so a seller, we work with a number of manufacturers, for example. You can think about what Affirm does for a consumer seller, they'll work with the merchant so we'll work with the business merchant, they will offer net 30 as a payment method and Resolve will power that by enabling all four steps I just mentioned so that gets are much more smooth, digital and seamless process than otherwise if they were trying to handle that ad hoc or mainly themselves.

Peter: Right, right. I know it's interesting when you have because I've been a small business owner my whole career and you're providing credit to people and you're not a credit expert. The average small business owner knows nothing about what to look for when offering credit so what you're saying is you take over that whole process, like are you making underwriting decisions as well or what are you actually providing?

Chris: Exactly right. What we find is many business owners, sales leaders, e-commerce leaders, etc. there's a established way to think about offering credit as part of a B2B transaction, but for the most part, as you pointed out from your own experience, these are fairly ad hoc decisions, right. You're sort of sizing up the relationship, you're saying, I trust Tom who's been buying from me for years now and he's needing 30 or 45 days to pay back and he wants $32,000 for that credit. I think he's good for it or maybe we'll run a Dun & Bradstreet report just to double check, but there's no formal process for the most part or it's very, very ad hoc.

So, yeah, we come in and we have a mechanism by which we can actually perform that credit check on behalf of you and that buyer relationship and there's a number of things we can get into around what signals, both credit and underwriting-wise, that we will get to make sure that transaction is de-risked so that there is real data behind that decision as opposed to more of a gut or visceral decision that's based on intuition, but that's just the starting point, right. So, in many B2B businesses they might have a PDF credit application that you have to fax in with credit references so all of that archaic process we can replace digitally with our process.

Peter: Interesting, really interesting. So, we were chatting before we hit record about buy now, pay later and it's been hot obviously for the last several years and remains hot, consumers love this product and it hasn't been as hot in the business space. It seems to be changing, but maybe you can sort of give your perspective, you know, obviously you know Affirm well, they're obviously very consumer-based, how is BNPL for business different to consumer?

Chris: This is a question we get quite often. The business version of buy now, pay later, there's obviously a pretty substantial difference because it's based on the invoice transaction, not necessarily a…..and because there's two business entities, right. There's generally a lot more complexity between the process to process an invoice transaction, but the simplest, pithiest way I've heard it put is if a consumer transaction is like a tweet then a B2B transaction is more akin to passing a bill through Congress. (Peter laughs) And so I think….you know, you think about the accounts receivable process where you're offering all the four steps I mentioned, right, credit check all the way through the ledgering that into your reconciled entries and that accounting ledger and then all the stuff that has to happen on the buyers' side.

There's accounts payable controls to make sure that they can, in fact, cut the check, right, via ACH, wire or whatever and so the thing that's really, really critical in when we think about business versus consumer buy now, pay later is if some ways you can think of Affirm and others, what they're really doing is smoothing the cash flow for the consumer purchase. In business buy now, pay later, you have to attend to both the workflow and the cash flow, in fact, if you don't do both you're only addressing half of the equation, right. So, there's a number of AR or AP software platforms that arguably can support this complexity and there's others that are purely focused on the cash flow, maybe with a lending product or what not, but really what we found critical is marrying the workflow and the cash flow solutions together in an end-to-end platform, right, for B2B payments. That's how you properly solve B2B buy now, pay later, at least from our point of view.

Peter: Yeah, that's really interesting, I like the way you framed that. So then, you know, are you sort of focused on any particular industries, specifically? Maybe you can just give us a little bit of a profile of the typical Resolve customer.

Chris: So, we work with a number of B2B merchants spanning a great number of industries, but I'll give you two examples. One is a bike manufacturer and during COVID you can imagine anything outdoor sports related was really taking off, in fact there was tons and tons of demand. You've probably seen some news around supply chain snarls that would prevent inventory from arriving on time so the bike industry, in particular, was one where we worked with this….. one manufacturer, in particular, it's a great example of what it could do. So Tern Bikes, they are an e-bikes manufacturer that sells their inventory to a number of retail bike chains so the bike chains were desperately looking for more SKUs to have in their showrooms because people were looking to purchase, but because, you know, they were growing brand, they were competing with the likes of Specialized bikes and other larger incumbents.

Those incumbents can offer credit terms of reasonable sizes to just about anyone, but Tern Bikes at the time was only really offering terms to their best, maybe 5% of their business customers so when they started working with Resolve they could expand the base of business customers they could underwrite and offer credit limits to and the order sizes that they wanted to offer, especially those larger inventory purchases, were able to expand. So the classic buy now, pay later concept of once you provide buy now, pay later in your, whether it's checkout or the business situation that we're in here, traditional sales process, now these retail bike stores can purchase much more inventory, much more quickly to supply that demand that they have from their consumers that are showing up at the bike store to purchase these e-bikes. So, that's one example.

Another example would be we work with a number of e-commerce or B2B marketplace oriented sellers in the medical supplies space, there's a group called DocShop Pro that offers medical supplies online to doctors' offices and they were really looking for a way to streamline their B2B checkout processes. Oftentimes, doctors' offices are doing phone or fax, but wanted to streamline that purchase process so they plugged in Resolve into their e-commerce workflow and were able to basically drive all of their payments from this more manual, they were testing this e-commerce checkout for net terms and other payments. We were able to come in and digitize that process for them and take a manual marketplace dynamic and make it fully e-commerce oriented.

Those are two examples, you can see the benefits from, as I was mentioning before, the cash flow benefits of being able to do better underwriting and offering credit at checkout and also in streamlining processes that were manual by making them digital.

Peter: Right. So, just to follow up on that, using the Affirm analogy again, you go on to a website, you can see like pay with Affirm and that's a button. It sounds like what you're talking about with Resolve is not really a button, well there may be a button at some point, but it's really an entire process because you said like there's a sales process that is a lengthy thing, it's not just here, power my button on a website, it's almost like, from what you're saying is like help me power my procurement and purchasing process, is that fair to say?

Chris: Yeah, that's very close to how our business sellers and buyers already think about it, but what they're finding, and this is the important bit you're keying in on, is if you only provide a button which, to be fair at the beginning, Resolve was really just a net 30 button inside of an invoice, right. So, what we quickly learned inside Affirm and as we spun out was that is only solving part of the problem because there are banks or financial institutions that can finance invoices for you, that's fine and that exists today. In fact, oftentimes, if you only do that is it provides a pretty negative or terrible experience, both for the seller and the buyer, because it's maybe recourse to the seller or the buyers might wonder why does the seller need to finance my invoice, are they in some sort of financial weak position or something.

So, all of that basically goes away if you now are the billing system that provides more streamlined process that makes, again, that accounts receivable paper pushing process, more akin to Congress passing an act or even the accounts payable process more streamlined. We tend to talk about ourselves as a embedded payment platform because you can embed various components of these more archaic or manual processes into a digital format or it can even be a manual process but it's digitalized, at least from a operational point of view, and that actually produces the same effect as the buy now, pay later that the consumers know and love from Affirm and others, but in this B2B purchasing context which tends to be more complex.

Peter: Right, that's really interesting. It seems like underwriting is a really key piece here because that's technology and processes and knowledge that you really sought after, what's your underwriting engine like, can you describe that?

Chris: It's really important that we do this well on behalf of our sellers, right, because they are looking to us as credit experts and credit partners to make good decisions on behalf of their buyers who they hold as sacrosanct, right, really, they don't want anything to come in-between them and their own customers. So, one of the most important things we do is when we integrate into their workflow is we can do things like check the existing payment history between the seller and the buyer as a form of credit signal.

If, for example, Acme Company, as your buyer, has been paying you on time for the last ten years, very likely they're going to continue paying you on time, right, and then interpreting that properly with the number of proprietary models along with the other credit signals that will pick up. There is still if, for example, interacting with a net new buyer that you have not sold to before a way that we can pull signals from the credit bureaus, from other public sources of information that a credit expert and a credit modeling team that we have in-house has interpreted into a yes or no decision and a credit limit amount that we can service to you as you're making the decision on whether you want to give net 30 terms, for example, up to $50,000 of credit limit to that buyer, whether it's existing or a new one.

So, long story short, we built a credit underwriting engine, built off all the call it best practices in fintech that are well established, but we're really applying it very, very importantly to the existing relational nature of B2B purchases, right. So, not only are B2B purchases heavily workflow-oriented, they tend to be built on long standing relationships so we take both those things into account.

Peter: So, that's what I'm interested in. So, you might recommend, there might be a customer that you've been doing business with for a while, but unbeknownst to them they're having some financial difficulty whatever, but you're coming in and saying, hang on, this person doesn't deserve a $50,000 credit limit, we think it should only be $10,000. Is that something, obviously, they can override it, right, they could say, screw you, this relationship is so important I'm going to keep doing what we're doing. Can you describe that sort of interplay with relationship knowledge that they have that you obviously, it's harder to sort of automate that, right?

Chris: Yeah, that's right. In fact, this is where there is a really deep partnership between the merchant sellers and Resolve platform or their folks that are powering with that relationship on their behalf. So, what they'll see is our platform can get insights they may not be able to themselves from a data point of view and they may have some relationship insight or preference to offer more credit limit than we might, that happens on occasion. But what we typically find is that they'll see the data and they're like ah, you guys can see something I can't, I will tend to be more cautious if I see the Resolve decision suggesting something less than I normally would be and they use it to check their intuition.

In the case where they're, for example, they are insisting that they do more, they will oftentimes take that transaction and complete it and there's ways for us to support even if you said $50,000 transaction, they want to do a $60,000 or larger invoice, they can default to their gut, if you will, but that's generally more rare. The main point is there's often a pairing of the data and that relationship insight and often if it becomes, you know, larger size, sometimes you'll see transactions in the hundreds of thousands of dollars or in some cases even millions, there is a conversation that happens between their team and ours to make sure that that relationship is preserved, the transaction happens and it's done in as risk smart way as possible.

Peter: Right, right. So then, are you like more of a SasS platform then, are you taking a percentage of each transaction kind of like the traditional BNPL, what's sort of your business model?

Chris: We are a workflow platform in addition to a payments platform so there is a way that we work with our customers where they're paying us a monthly platform fee to use all the tools that supply that end-to-end workflow that I just described earlier. There also is a payments or transaction fee which basically get at the idea of you're offering net 30 or net 60, there's a cost associated with that just like you would be paying a fee to a credit card processor, for example, so there's both, we monetize through a platform fee and a transaction fee.

Peter: One of the reasons why BNPL is so popular for consumers is the merchants love it because suddenly they offer this and they have a 30% bump in revenue and so that's a real selling point for the merchants, the BNPL, is there a similar thing in play for Resolve customers or how would you approach that?

Chris: So, in many cases, what we're finding is either the merchant hasn't offered terms before so they get terms at all so that's a net new benefit or if they have, sometimes it's net 15 or something somewhat short or net 30 is the standard. With Resolve, they can offer something like a net 60 so extra time to pay is always a net benefit to the buyer.

The other is if it's been fairly manual in the past where they have to, as I mentioned before, pay through ACH or wire or credit card through a more delayed process where it might take weeks to get a credit decision or they have to work with one individual on accounts receivable team that's sub-scale, they now have a number of digital payment options that's available to them through this digital process we've enabled. So, the payment options become much more seamless and they tend to be able to be longer than they were before and, as I mentioned, oftentimes they can pay more because the credit limits tend to be higher as well so all those and more tend to be buyer benefits.

Peter: A lot of companies will offer credit cards, right, so how do you interface with sort of the payments processing side of things or is this really a totally separate kind of funnel for your clients when they're putting on their checkout?

Chris: There is, there is, yeah. In fact, the way they think about it is because they tend to like the interface we provided and invoicing is the more primary flow then say a credit card swipe or a credit card button on an invoice then we will, generally speaking, offer credit card processing as part of the interface, as part of the invoicing experience now at Resolve in this total B2B transaction support, right. So, yeah, credit cards at the end of the 30 days or if you want to make a credit card payment, you can also do so.

Peter: Right, got you. Moving on here, I want to get your sense on how you're approaching the current economic climate. Just in the last couple of weeks, we've seen a lot more talk about recession, interest rates are going to keep rising, how are you approaching that, particularly on interest and the underwriting side of things. Are you changing anything given where we are in the economic cycle?

Chris: Yeah. As I mentioned before, underwriting is one component of what we do, but maybe only a fraction of it, but there is a sense that for the merchants and their buyers, everyone's aware of the risks of the recessionary environment. So, they may prefer to be more risk-off or risk-on and our credit decisioning engine allows them to be a lot more tailored in their approach, right. So, they can, in some ways, set what they prefer, right if they want to be more cautious and grow slower because they're nervous about repayment rates of their buyers that they work with, they can do so, we enable that for them.

For our particular case, right, the signals, the data remain the same and the interpretive stance around how much credit decisioning, whether we give approvals, higher or lower, those models have persisted over time. We have reams and reams of data from our own experience and past that suggest what are good cut-offs for certain approvals or credit limits so I would say those hold true, but the attitude of our merchants, that could vary. We are seeing, I would say, the merchants and the buyers that are a bit more nervous about it, they have on balance decided to be a bit more cautious in this environment and that makes sense from our point of view.

Peter: Yeah, that makes sense. So, when I was researching you guys I came across an article that you wrote fairly recently, you're talking about buyer journeys. I can see that this is a really big piece about what you do at Resolve so you were talking about like transforming buyer journeys, where are B2B companies falling short here?

Chris: Maybe the biggest secret we have and maybe it's not so secretive of you're running your own B2B business is the magic really is in the relationship, but the problem is most people assume if it's relationship, it's manual and unscalable. But what we're finding is with increasingly more digital expectations from buyers, including B2B buyers, you can in fact scale this relationship dynamic of a B2B purchase if you do it the right way. In our case, our orientation is how do you properly scale the very important relationships in B2B purchasing digitally and the way we figure out a way to do so is automation is not the only answer. Automation is part of the answer and you have to couple human insights and human relationship components to make sure that B2B transactions scale.

So, to be super specific as we started to talk about in that credit limit example we went through, what we found is, right, if you have either an e-commerce checkout or if you have a B2B marketplace and you want to, sight unseen, underwrite or offer credit limits to your business buyers that can work up to a certain point and you could use credit algorithms to decide sight-unseen. But when it comes to larger purchases, especially ones that are recurring, one of our core missions or values is growing transactions into relationships, right, so you might be able to do one-off purchases in B2B akin to how it's done in consumer, right.

You buy a Casper mattress and then you're done for a few years, but what we find in B2B it's really important to nurture transactions, especially net terms transactions where there is a trust component or credit component built-in and then once the relationship is established with a credit or net terms first transaction, the opportunity to enhance or grow that relationship comes not only from the net terms platform that we provide and the payments, but you basically leaning into that relationship that started digitally and can become digital and human, if you will, right. That, to us, is the idea of transforming the kind of obvious digital transformation, but in some ways the relational enhancement that comes from it.

Peter: Right, right. So, how do you interface with the accounting platforms like the Quickbooks and NetSuites of the world?

Chris: So, we integrate across platforms and a number of the ones you mentioned, we integrate with. That integration piece is incredibly important for both the underwriting and data connection, as I mentioned, and oftentimes these sellers and their buyers think of those platforms as the central nervous system for their business. So, it's really critical that we integrate with those in addition to what you would expect the e-commerce platforms and the other selling platforms that are popular within B2B.

Peter: Okay. Can you give us a sense of the scale you guys are at today?

Chris: I'll start with something that is maybe a truism within B2B....the B2B market is massively larger than the consumer market from a total addressable market or TAM point of view. So, we've already been able to process an issue.....we've issued billions of dollars of purchasing credit to tens of thousands of business buyers, we're growing significantly, especially despite or maybe partly because of the environment macro we're in. There's certainly a lot of demand for what we do, there's obviously risk associated with it so we have to be very smart and judicious about that, but, yeah, the thing we talk to Max about, the thing we joke about is we are, you know, the sister spinoff company so we might be the little sister today, but we our ambition is to be the little sister that grows up to tell their older brother what to do.

Peter: What's your vision and how are you going to do that?

Chris: I think where we see payments going, buy now, pay later going in B2B, is really around this embedded, credit embedded payment so we ultimately want to be the embedded B2B payments platform that, as I mentioned earlier, that allows or helps grow these transactions into relationships because that's really I think at the core of what a B2B transaction is, it is a relationship. It's a trust-based transaction and we want to those B2B transactions as seamless as they are in consumer and we think the future of payments in B2B will be more and more this way, more and more embedded, more and more trust and more and more relational.

Peter: Okay. Chris, it's really been fascinating learning more about Resolve. Thank you so much for coming on the show today.

Chris: Thank you, Peter, good to be with you.

Peter: While a typical business, a typical medium-sized business will have credit people on staff, they will have a credit management function, but what really Resolve is doing is talking about…. what I love is this sort of taking some of these offline processes and some of these ad hoc decisions that get made and really professionalizing it and making it into a nice, neat package that you can integrate into whatever way you're running your business, whatever software package you're doing and I can see the benefits of running a package like this. They've already got some decent track record, but, you know, there's not probably enough focus on this very important process, the whole buyer life cycle from credit all the way through collections and what have you so really impressed by what Chris and the team is doing there.

Anyway on that note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

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