



FINTECH ONE-ON-ONE PODCAST 390-PETE LORD

Welcome to the Fintech One-on-One Podcast, Episode No. 390. This is your host, Peter Renton, Chairman and Co-Founder of Fintech Nexus.

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Peter Renton: Today on the show, we are talking small business data with Pete Lord, the CEO and Co-Founder of Codat. Now, Codat calls themselves the “universal API for small business data” and we break down exactly what that means. We talk about the different types of data that they work with, talk about why this connectivity is so important, we talk about the different use cases, we dig into the lending use case which is a really major one.

We talk about the different geographies they operated in and why this is a global phenomenon, this challenge around small business data. We talk about some of the names that they're working with, some of the big names. We also talk about climate data which I thought was really interesting and the opportunities that is going to present, we also talk about their recent fundraiser and much more. It was a fascinating discussion, hope you enjoy the show

Welcome to the podcast, Pete!

Pete Lord: Thanks for having me, Peter.

Peter: Okay, my pleasure. So, let's get into it by giving the listeners a little bit of background about yourself, I'd love to get kind of the highlights of your career. I know you're still fairly young so you haven't had a long career, but I know you've been in fintech for a while so give us some of the highlights.

Pete: So, I studied Computer Science at university, and I spent a few years as a software engineer before I moved into product management and that experience was all at a company in the UK called MarketFinance, previously they were called MarketInvoice, and they're a small business lender. It was through that experience actually that I saw the need for Codat, I saw the problem and that problem was two-fold. First of all, it was a business problem and that is, lending money to small businesses then you need accurate financial data on them in order to have confidence to make that lending decision. One of the ways that you could do that is by building integrations into the systems that these SMBs are using already to run their business and track their performance.

That bring us to the second part of the problem which is the technical one. I don't know if you've tried building integrations, it's pretty thankless work and that's because you are spending time adding new product features and working on functionality, it's only a small sub-set that users benefit from. Actually, the more integrations you build there, the worse it gets. Codat builds because the products that you are connecting to are fully documented, because they're less mature and fewer and fewer of your customers actually benefit from the work that you're doing and so it's two-fold problem, the business one and the technical one. And me and my two Co-Founders who shared the same experience started Codat to solve this, the idea being, if we can build these integrations then other SMB fintechs don't have to and they can benefit in terms of getting their products to market faster and building better applications.

Peter: Right, right. So then, maybe let's dig into that a little bit because I noticed you call yourself the universal API for small business data and so maybe you can describe exactly what you mean there.

Pete: So, let's break it down. Universal, to me, this context it means one to many so we have a standardized data model so through one API connection our clients can connect to the many different systems that we've built integrations to. This is accounting, e-commerce, point of sale, payments, platforms used by SMBs. A universal API is always day-to-day. API is next, we are an API-first business. Whilst the value of our connectivity might be measured in terms of a business metric like decreasing the time that it takes for a small business to go through an application journey or increasing the amounts of money that can be lent by a lender, it's developers who are using that technology and that provides itself.

Small business data, so we do connect systems, we build integration systems, ERP systems, used by larger corporates. Our sweet spot is really very firmly liaised with the SMB segment, they're difficult to universally put a label on it, but we're talking kind of tens of employees, tens of millions of dollars of revenue and below typically. These small businesses, they'll use over 40 different tools to run their business and our range so the need for connectivity is still there. For our clients, it's a huge benefit of scale, you can ultimate processes a lot of time and money to be saved not just for SMBs, but for our clients.

Peter: So, I imagine you're integrating with QuickBooks, you're integrating with Xero and other accounting software and then Shopify, right, but you said four different categories, maybe you could use some examples within each category of some of the companies where you have an API connection.

Pete: Our origins and I guess kind of the bread and butter for us is the accounting and bookkeeping connectivity so QuickBooks Online, Xero, Sage, NetSuite, these types of platforms and then common API systems like you mentioned. Shopify is a great example of an e-commerce platform, Stripe in terms of payments, something like a Square in terms of points of sale and, actually, via our partners, we provide banking data connectivity as well.



As to data infrastructure part of it, what's pretty interesting is as time goes on we're building more and more, what we've called feature products on top of that data infrastructure. One of them, Assess, for example, it combines the data from these different data sets to give our clients something that's greater than the sum of the parts in that they can start to get insights and intelligence from how these data sets can be married together.

Peter: Right. So, I imagine, a lot of your clients, I mean, lenders, banks, we'll get to that in a little bit, but they have a customer that comes along, he wants to borrow money then they go to you and that one client may be on Shopify, may be on Stripe, may be on QuickBooks, whatever, so I presume they'll say, right, give us everything you've got. Is that how it works or do they say, I want QuickBooks data, I want whatever, I mean, obviously the small business is typing in their credentials, I imagine, so you've got to be able to get access to that data, but maybe you can just take us through a little example about how it actually works.

Pete: One of the most common misconception is that small businesses are sharing their data with Codat, that's not how it works, we're completely white label, you can think of us as part of our clients' tech stack. A small business is consenting to share their data with a nominated third party that's Codat's clients, they're people in our API and then we provide the connectivity that enables that multi-connection established then we can synchronize data both to and from, it's bi-directional between our clients and the software system that's used by the SMBs like the QuickBooks or the Xeros, as I described.

Most of our clients are looking to enable all of our integrations, over 30 of them, because they want to provide their connectivity functionality to as many of their customers as possible. But in terms of the data, our clients control that to make sure that they are only requesting and accessing what is essential for their products to function. So, it's very much not a take everything, it's got to be explicit. We're big proponents of very clear communication and tight controls for the SMB in terms of data sharing, it's their data at the end of the day.

Peter: You have a connectivity piece that allows the lender, whoever is requesting this data so you're just providing that and then it just goes through your pipes, but you're not actually seeing it, is that fair to say?

Pete: We see it and because a lot of process value that we provide is that we're mapping that data to a standard format.

Peter: Right.

Pete: So, when it reaches our lender data, we have fintech, we have a bank, then they actually don't need to be concerned as to kind of where it came from or where it's going to, they just manifest. A Xero user or a QuickBooks user or a NetSuite user, as far as they're concerned, it's one of their customers' data they can just focus on how they use that data. They are providing kind of a greater value to the customer because they have access to it.

Peter: Right, right. It's interesting because this really relies on like an open banking kind of mentality or at least a framework. I think you started Codat after the open banking implementation happened in the UK. I know it took a while to kind of really get going, but you're a UK company, I know that you also operate now in the US, we can talk about that in a little bit, but I'd love you to kind of, give us a sense, what's the state of play of open banking in the UK right now and maybe you could just contrast that to what you see here in the US.

Pete: Open banking is getting pretty mature in the UK, I mean, it's really now just around continuing the growth of uptake and use in the market. I guess the biggest difference to me between the UK and the US is that the UK has been more regulatory or legislatively led whereas the US has been...there's regulation for sure, but it's been much more commercially led with companies, like Plaid is a great example pushing the boundaries. There's this stat from FData that 30% of the US population have used apps that combine both financial data so in the US, it's going really well and that will only continue to grow.

For me, that kind of reinforces this view that regulation can be kind of a great accelerant, but it's certainly not essential and I guess we see that because we're opening up accounting data, we're opening up commerce data and the open sharing of these data isn't regulated in the UK or the US and so we're still seeing traction. So, for me, kind of the market readiness is less about regulation and much more around other SMBs that are open to sharing their data to the fintechs, to those building innovative products, using it no matter why or how it's been shared in the first place and is there a problem to be solved the increased data portability can solve.

Peter: Right, right. What about Continental Europe because I know you operate there as well, is that similar to the UK would you say?

Pete: I think, similar. I think there are some countries where there's less of a tendency to connect to data and to share a system. So, for example, in Germany we see, in terms of SMBs, they're more hesitant to connect their software compared to the UK market, as an example.

Peter: Right, right, okay. The challenges though, I imagine, are universal. What's your geographic footprint now and are your challenges very different between countries because, I mean, some of the products you've been talking about, they're global. They're in many, many countries around the world so I imagine that makes it a little easier but tell us the geographic footprint and the challenges of working internationally.

Pete: There's a few different measures, Codat's footprint. Firstly, it's our team so our team are based in the UK, in the US and Australia, it's there where our clients are based, people connecting to our API, that's a little bit wider. We have clients in Canada. in the rest of Europe and a dozen kind of dotted elsewhere around the world and then it's where these small businesses are located, we're connecting via Codat's technology and, again, that's a little broader still.



Our best fit, in terms of connectivity, is in the core markets where we have people and clients, but, as you say, the software systems that we're talking about, some of them are very regional, but others are global by nature. Some of the challenges that come in are not unique to Codat in terms of connectivity, but there are others that are and our big one, for example, for us is the way that tax is calculated and the different accounting standards around the world and trying to standardize that into one model is a real challenge and the one that we'll be taking on.

Peter: Right, right. Particularly here in the US where there's federal tax, state tax and there's local county taxes. I know you began in the lending space, right, is that still the primary use case? What are the types of clients are you seeing?

Pete: That's where we've began and the story over the last five years for Codat has really been about realizing the potential of the technology that we've built. It's what makes it fun and exciting to work at Codat so it makes it challenging. For me, that challenge looks like, where do we focus? There are 42 different use cases for Codat, (Peter laughs) our clients are using us for at the moment, everything from hedging effect to payroll reconciliation, from insurance to corporate cards and many, many more. It's something that I wouldn't have expected five years ago, especially some of the vertical SaaS companies that are using us.

I guess that I mentioned focus, for us there are a few particular areas of focus at the moment, that's expense management, point of sale, banks and lenders. These are the areas where we're doubling down, making sure that we're really delighting clients, but the great thing about providing infrastructure is that improvements that we make for one sector, the benefits are felt across the entire space.

Peter: Right, right. Let's just talk about lending for a little bit. You know, maybe you can talk about this access to this lending data, do you have any stats or just what can you share about sort of helping small businesses get access to credit that maybe they wouldn't have had before they could connect to all these data sources.

Pete: We've surveyed a hundred SMBs and found that 73% of them had a negative perception of finance. They gave reasons like it's expensive, it's hard to get, it's intimidating as to why. And in terms of SMBs and using data to kind of help close that lending gap, we can start with making it easier for small businesses, businesses that need funding, but have put off applying because the process is onerous or as per the survey results said, intimidating. In order to get access to a decision, SMBs can simply connect the software that they use to run their business and working towards it instantly, getting a yes or a no and the limit versus uploading documents and filling in forms, that value is definitely going to increase the access for SMBs.

On the flipside, you've got the lender, for them what we're able to offer or rather the data that Codat makes available can offer is we can improve the classification of the SMB for them because we're using up-to-date data and much more granular than a bureau score or last year's audited accounts that they can put businesses in a smaller bucket. This is particularly true if the business has been growing rather than judging them on their performance 12 months ago, they can be judged on that



performance as recently as last month or today and actually now that business is.... we take this up-to-date view of the world, that business is eligible for products that they wouldn't be otherwise.

The same is true in terms of when markets are changing, at the moment we see lots of lenders probably feeling less confident about making lending decisions because of the uncertainty. Well, actually, we give the right details up-to-date view of the small business. Essentially, it's the same view the small business owners have got themselves then they can have that confidence to make a decision and they can make it quickly as well. We all know that SMBs when they need cash flow, they need it now, they've got a client that they want to take on, an order they need to fulfill because they need to make payroll and so giving lenders the ability to make confident decisions quickly is how we help.

Peter: So, are you also connecting the bank data or do you partner with Plaid or is that something....where do you kind of stand when it comes to bank data?

Pete: We've partnered with Plaid, they're actually one of our investors, also TrueLayer as well. Our view is there are some excellent companies that have built excellent products to connect to bank data so we wait to re-invent the wheel instead, we'll use them as building blocks and embed into our product.

Peter: Right. So, for the lender, can they connect to the bank through Codat or do they need to separately go through Plaid or how does it work?

Pete: They can do either and most of our clients do connect to the banks via Codat and that has the advantage is that we can stitch the data together, as I mentioned briefly earlier, something we could cross referencing. The great thing about accounting data is they're so rich, but our potential objection is user-ended, it's mutual. The banking data has the opposite characteristics, it's come direct from the bank, you know that these transactions have occurred, but all you have is the amount and their description and categorization of bank transactions in the SMB world is really tricky. But if we can stitch these two data sets together then we can have the trust that comes from the bank data combined with the context and the richness from the accounting system because layer on data from an e-commerce platform or payment solution as well and get this really useful holistic view of an SMB.

Peter: Can you maybe expand on that a little bit. So, what are you presenting back, let's just use the lenders as an example. The lender, someone comes on, maybe they're connecting Shopify data, their bank data, their QuickBooks Online data so you've got three pretty rich data sources, what do you present back to the lender exactly?

Pete: Most of our clients are accessing the raw data that's come back from these systems, we have transformed, we've mapped it into a standard format to make it much more easy to use across clients using many different software systems. So, the raw data is all there and made available and there are many companies that might utilize that really effectively, particularly some of the fintechs who've got teams of data scientists and have setup to consume data really well in that format. But, actually, this

year quantity of the data can be its own worst enemy, it can be overwhelming to some and so we've got products and it's called a SaaS and it contains the metrics and the key insights from the raw data and basically makes it much more easy to get the meaning behind that data itself.

Peter: Right, okay, so that's interesting. I want to talk about climate data for a second because, you know, it's a whole new area of data, it's becoming more important in Europe. The European Union has some mandates in place for small business data that's happening soon, US is not that far along when it comes to, but what are you doing on that front? Are you getting demand for that kind of data?

Pete: To be really honest, what is Codat doing? Not very much, but what are our clients doing is quite a lot. So, we've got clients like Greenlee, GreenCars and Dodo and others and these clients do different things, but a key kind of theme is calculating the carbon footprints of SMBs using consented data. So, if you spend or if a small business rather spends \$100 on American Airlines, that probably has more of an impact on the environment than the one who spends \$100 on Microsoft Azure, but you'd actually get much more granular and start looking at the accounts payable, accounts receivable, ledgers of these businesses and actually thought to track emissions much more accurately through the supply chain. This calculation of emissions, of carbon footprint, it can also then be layered with a service to offset that as well so it is essential that we see it growing, we're proud to be part of it.

Peter: Right. That's going to be a very growth area globally, but certainly starting in Europe, it seems, in the near future. I want to talk about your recent fundraiser, so it was announced in June, I'm not sure when you actually closed it, but you had really big names in this fundraising process. You've got Index Ventures, you've got PayPal, you've got JPMorgan, maybe you could tell us a little bit about what that fundraising process was like and you did this 2022 so that's an achievement in and of itself, but just tell us a little bit about that process.

Pete: We closed in Q2 of this year so the announcement was pretty recent. The investors you mentioned, also Canapi and Shopify, the fundraiser was our Series C so this was kind of third time round and it was very similar to the A and the B. The due diligence was a little more onerous, as you'd expect, being a large company and larger amounts of money, but, otherwise, not much different. The hardest part is just bringing together, in terms of timing, these very different organizations.

The one thing that is a common thread across them is that alignment with our mission. I think is this what has, you know, proven to be the most valuable aspect of this round and I think taking strategic investment in general is the value that we are providing, centricity on small businesses and hiring fintechs is a common thread. We're really fortunate to be in a strong financial position going into what could be a tough area for many, but it's really the mission alignment that these organizations bring that give the greatest value to us.

Peter: Right, got it. Can you give us a sense of the scale you guys are at today, like how many people have you got on the team right now?



Pete: We're 300, about 330 right now, most of our people, about 80% of them are based in London, the remaining amounts, we have a small team, small but growing very important team out in Sydney and then everyone else is in the US, mainly in New York.

Peter: Right, okay. Good shout out to my hometown there, great, okay. So then, let's maybe close with, I'd love you to kind of paint a vision for what a connected world can look like when it comes to SMB data. You know, let's face it, there are still some people, you know, running QuickBooks on a PC that's sitting on their hard drive and all that data in there is not even connected to the internet potentially, but I'd love you to kind of peer into your crystal ball and take us out a few years and maybe combine that with sort of your vision for where Codat sits. What's the connected world going to look like?

Pete: It's our mission to make life easier for small businesses, it's our goal to connect to all of them and what does it look like when we do that? I spend a lot of time talking about connectivity and value of connectivity, but it's hard to visualize what are the metaphors that I've used in the past is, what Codat is doing, it's like we're building the Internet for business data. And so, right now, certainly going back a couple of years, it's very much felt like we're in the world of dial-up from kind of Internet status, connectivity is there, but it's limited, its usefulness is patchy. The world which is going to take small businesses to kind of where we are today on the Internet which is, you know it's 5G, it's effortless, it's everywhere, ten years ago, we just couldn't have imagined.

Actually, when you think about our consumer lives then we wouldn't talk about where we've got phone reception much, we don't talk about kind of our Internet speed, we don't talk about the products to be used that aren't all connected to the Internet. The only time we really notice it is when it's not there and it's hard to talk about because it's the absence of friction. This is kind of the world that we envisage, that we're trying to build towards. In ten years' time, there will be no one on podcast talking about integrations, they wouldn't be a marketable feature because they'll just be there, they'll be table stakes, they'll be so integral and that's what we're trying to accelerate and to create.

Peter: Okay. Well, it's a great mission, I think the benefits obviously, so small businesses around the world which are, you know, obviously an engine for economic growth everywhere. So, thank you very much, Pete, for being on the show and best of luck to you.

Pete: Thank you very much, Peter, for having me.

Peter: You know, it struck me when just reflecting on that conversation that so much of the world's data, particularly when it comes to small business or really any types of data, it sits in silos. You've got your accounting data in its silo, you've got your e-commerce data in its silo, your banking data in another and maybe you have shipping data or something else specific to your business, but those silos are going to end up becoming interconnected.

As Pete said there, integration is just going to become table stakes where all the silos will connect to each other and I'm thinking when we have that, when we have all of this data that's connected, the



possibilities are endless what we can do with that, get good data scientists onto it and we will be able to kind of gain new insights that we've never had before and there will be new use cases to this day that we haven't even thought about yet.

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

(music)