LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 281-SEAN DE CLERQ

Welcome to the Lend Academy Podcast, Episode No. 281, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

(music)

Today's episode is sponsored by Lendit Fintech USA, the world's largest fintech event dedicated to lending and digital banking. LendIt's flagship event is happening online this year on April 27th to 29th with the possibility of an exclusive VIP in-person component. The verdict is in on LendIt's 2020 event that was held online with many people saying it was the best virtual event they'd ever attended. LendIt is setting the bar even higher in 2021, so join the fintech community at LendIt Fintech USA where you will meet the people who matter, learn from the experts and get business done. Sign up today at lendit.com/usa

Peter Renton: Today on the show, I am delighted to welcome Sean De Clercq, he is the CEO and Founder of Kickfurther. Now, Kickfurther is a really interesting company, they've got a unique approach and it's a company I've been following with great interest for many, many years, reason being is back in 2015, LendIt had our first ever startup competition, it's called PitchIt @ LendIt and Kickfurther was the winner so that's why I've been following them.

I've had a small account on kickfurther.com for many years and they provide a unique type of financing, it's inventory financing for people who are selling physical goods, a company selling physical goods and they do this in such a way that it's much less expensive than a lot of other types of financing. These deals are funded by typically individuals and we talk about that in some depth. We talk about how their model works, how their underwriting works, what kinds of deals they fund and really, what are their goals for the future. It really was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Sean!

Sean De Clercq: Hi, Peter, great to be here.

Peter: Great to see you and great to have you on. We've had a bit of a long history which we'll get into, but before we do that, I just want to start by giving the listeners a bit of background about yourself. What did you do before Kickfurther?

Sean: So, my entire background is in supply chain management and immediately, prior to Kickfurther, I was running a merchandising company. So, you know, taking products pretty much off the shelf with manufacturers overseas, customizing them a little bit and then selling them as white label exclusives to retailers here in the US so pretty standard merchandising operation. We went from $600K of sales to a million of sales between years one and two.

Peter: Okay. So then, was that where you got the idea for Kickfurther? Tell us a little bit about the genesis of the company.

Sean: Yeah, exactly that. So, I mean, we were running the same business.....I mean, a lot of, I'm sure, your listeners will be familiar with merchandising companies. So, you've got these retailers and they saw, awesome, we love you product, you show them a bunch of samples and they place an order for a container load of inventory to arrive three months later. The immediate thing that you would do is then scramble to find the finance of who's going to fund this inventory, how am I going to produce this inventory so I can collect on that PO.

It was really interesting because as we were building this business, we went out to these vendor conferences because they would have these vendor conferences, they bring all their vendors together and you go across the floor, you'd ask people like hey, how are you solving this problem, you're on net 60 payment terms too and everybody was having the same issue. It was like, you know, I've got my uncle, Joe is helping finance me or I'm putting it on my credit card or this that and everybody was finding their own little solutions. But, there is no like hey, this is that way that everybody should do it, right, there is no one unified solution so it seems like a big opportunity for us.

Peter: Right, right, okay. So then, maybe you can get into it and just describe exactly what Kickfurther does and how it works.

Sean: Absolutely. So, pretty much every single business that sells physical products encounters the same issue which is you have to pay somebody, I mean, a manufacturer that make your stuff before you can ever start earning revenue when you sell it and so what we do is check further. We recognize that this is an issue for almost every single product business out there. We have a community of people who we call our buyers or our users and those people will actually buy the inventory from your supplier, we'll aggregate all of those purchases together.

We'll have the inventory produced and shipped to you, the business, and then as the business sells through our users' inventory....it triggers and underlying consignment contract and they pay us back for the inventory that they're selling as they sell through it. So, it's zero dollars out-of-pocket for a product business, but they get the inventory that they need to sell to drive revenue and then as they sell it, they pay back the funders.

Peter: And also it seems...obviously, I've been on your site for many years, you set me up with an account many years ago which I still kind of pay attention and I log on pretty regularly. The terms vary right, is that the person/the company saying, you know what, I really need four months, sometimes, it's three months, sometimes it's six months, does the company get to dictate those kinds of terms?

Sean: So, the market that we're in, you just see these businesses have such unique business models and strategies for success. You've got some businesses, you know, they buy a container load of inventory every two months and that's very regular for them, they'll do six inventory purchases a year. Some businesses do one inventory purchase a year because they're selling sunglasses or swimsuits or what have you.

And so, what we've developed is this consignment model that really fits all the different types of physical products companies that are out there and because they're all so different, we have to have that level of flexibility to meet the business owners where they are.

Peter: Right, right, okay, that makes sense. So then, maybe just take us through an example, like someone that's done a deal on your website, they're a repeat user, give us an example of the type of company that actually is using your service.

Sean: Sure. So, this is just top of mind because I spoke with the business owners just last week, but we have a great company called Purism. They manufacture privacy kind of no malware, no bloatware, privacy-focused laptops and mobile phones, I believe. And so they've been in this business for a while, they work with overseas manufacturers, they need to produce let's say 5,000 units of their 15-inch laptops that they're going to be selling for the next six months so their manufacturer said, alright.....you know, I'm going to make these numbers up, right, so it's going to be $1000 per laptop so for 5,000 of them we need $5 Million to pay our factory.

They'll come to Kickfurther, they'll say we need $5M, you know, to make 5,000 laptops, we run them through our quality control, our quality assurance process. If everything looks good then we launch their deal on our platform and, essentially, anybody, Peter, you, me, anybody, we can go on to kickfurther.com and we can buy one laptop or two or three or, you know, 500 let's say, depending on the timing. And when all of those 5,000 laptops have been claimed by our users, now we have enough that we can say to the factory, alright, we have all the funding we need to produce 5,000 laptops and then we can go to the factory and say, alright, here's $5 Million, please produce 5,000 laptops and ship it to Purism.

Now, Purism gets those laptops, they belong to Kickfurther, but they have them in their warehouse to begin selling them that’s tracked through let's say ShipBob, EasyPost or Fulfillment by Amazon, whatever warehouse service they use. We tie into that and we look at the data and then three weeks later, oh, there's only 4,000 laptops left or two weeks later which we invoice every two weeks right now. There's only 4,000 laptops left and we pull through ACH the thousand laptops that got sold normally at let' say, you know, anywhere between 5 to 10% more what the original cost was that was paid. So, if we funded the laptops at $1,000, when Purism sells them they'll pay us back let's say $1,100 per laptop which we then distribute on a pro rata basis to the people who funded the laptops.

Peter: Right. So, are you paying the manufacturer and bypassing the retailer that's actually coming to your site or where does the flow of funds go?

Sean: So, there's a badge on our deal that says "supplier direct." If that badge is lit up, it means that the funds that we are raising for the consignment opportunity are all going to be paid directly to manufacturers and to third party suppliers. So, every single dollar we raise is going to a third party that is not the business and so that's something that.....you know, they get the inventory they need so that they can sell it, but they don't get the cash, right. It's not like they're raising cash, they're raising inventory on Kickfurther.

Peter: Just to be clear, does every company operate it that way or only some of the deals operate that way?

Sean: So, every single business that we're doing on Kickfurther, we are funding for the physical inventory. Now, with some of the deals that are not 100% supplier direct....I'll give you an example where we have a soap company and the soap company has 50 different suppliers and some of the suppliers, they're only buying, you know, like a pound of saffron from, right.

And so, it makes it too complicated to pay every single one of their suppliers and it just makes the whole model too unwieldy so what we'll do is we'll only identify the top two or three suppliers where the large share of their cost are going. We'll pay those cost directly to the supplier and then the business can make up the cost for the other suppliers from, you know, other cash flow that they have.

Peter: Okay, okay, got it. So, you've really got to have clarity….. like the consignment that you have, obviously, you've got all the legal documentation in place, I imagine, so the retailer is responsible for it, but the manufacturer is getting the money.

Sean: Exactly, right. So, we are very specifically only working with businesses that need funding for the purpose of inventory goods like physical inventory.

Peter: Right. So, how do you underwrite these companies because, you know, one of the things I noticed and I mentioned this in the introduction, but, you know, you guys won the very first PitchIt @ LendIt back in 2015 so that's one of the reasons why I've been following you for so long. In the early days, there was certainly quite a few defaults I noticed in your platform and some of the deals that I was in, it seems like it's gotten a lot better, but maybe you can explain how you underwrite these companies to avoid that situation.

Sean: Absolutely. So, I would say, Peter, you know, someone that's been participating since 2015, you've probably seen that there's been a change on the platform. I will admit that, you know, in the early days I was a little bit naive and I was kind of hoping that everybody would kind of just play nice and do what they say they would do (laughs), that doesn't always work out on the Internet the way that would hope so we learned some lessons, right.

We learned that sometimes, you know, it's great to trust, but verify and so what we determined was look, we want to pay for inventory so we're going to introduce a process like supplier direct payments. If the business is telling us they need to pay for inventory, great, we'll pay your supplier directly, right, no need for you to be in the middle of that transaction. So, what we found was from the very beginning we knew this was a big problem and we knew that we had hit a nerve, right, and we're solving it in a really interesting way.

What we had to do was tighten up who we allowed on to the platform, the quality control processes of who we allow to participate on the platform. So, what we did in 2017 is we built what I call our score card and our score card looks at products businesses across really what I would consider like what I call risk verticals, okay, so you've got owner credit business credit is pretty standard for everybody. I think what Kickfurther does quite uniquely is we look at production risk so how likely is it that these physical things are never successfully produced, we look at distribution risk which is how likely is it that once they're produced they're successfully sold through whatever channel.

And the final thing we look at is general business risk and it's hard to really nail that one down, but I'll give you an example. We check for our businesses who is running the quality control/quality assurance partner process for their manufacturers and what we found is that if you're a products business and you just trust that factory is going to run their own quality control process, that almost inevitably leads to some quality control issues down the line and we know that the sophisticated business owners are paying that additional $300/$500 cost for every manufacturing run to have a third party come in and check.

So then, we can look and say, hey, who's the third party that's running your quality control and if they don't have one, we know that that's a risk factor and we have a score card that looks at 120 attributes like that across these products businesses to determine who we allow onto the platform.

Peter: And then within that, do you have like a pricing model that you put in because, you know, every one of these deals that I see has slightly different pricing. How are you basing that?

Sean: So, the profit on the platform is largely driven off of how often the business has been with us on Kickfurther. So, what you're going to see on Kickfurther is that the pricing typically is coming down as the business participates on the platform and as they do repeat deals. Kickfurther, currently, does not set pricing, our mechanism is a past fail mechanism and we essentially let the buyers on our platform vote with their dollars.

You know, if the price is right and the deal gets funded then we feel like the market has decided that that's a well-priced deal. Now, I won't say that that'll be the way it always is, but that's been working pretty well for us and what you see is that the market really does speak quite loudly and you can tell within the first day or two whether a deal will be successfully funded on the platform.

Peter: If they're not successfully funded, what happens then? Do you often go back and re-negotiate and say, look here, your pricing is just too low for this, I mean, what do you do?

Sean: So, we have comment boards so if our users will say, okay, hey, you look good, right, but, yeah, I only did $500. If you were offering 2% a month, I would have done $10,000, you know. So, they'll say that straight on the comment board and we don't even have to tell the business that that information's presented to them so that's nice.

Peter: Right, right, okay. So today, what kind of defaults are you seeing now, do you feel like......I mean, I know you've changed things dramatically over the last several years, but it seems, I mean, just from a casual observer, the defaults are way down. Do you have any stats to back that up?

Sean: Yeah. So, we don't call them defaults, they're consignment cancellations. So, we essentially cancel the consignment contract, our users have lost confidence in the business' ability to sell through the inventory so they're canceling the contract, they're calling the inventory back. That happens on one out of 25 deals so we have a 4% cancellation rate and most of our deals are offering anywhere between 1 to 2% profit per month so, you know, it kind of works out pretty well for our users which is why the deals are getting funded, you know, they're still getting funded in an hour.

Peter: Oh, I know, some of them even a lot quicker than that. You know, I get my emails at 3:00 pm mountain time and if I am not quick enough and I see that sometimes those deals are gone already. So, I want to talk about the other side because, I mean, I look at your website you have .....it's all about the retailer and the business that's trying to get funding which is, I get that. But, I know, you don't call them investors, you call them buyers or funders, but like who is doing this, how have you built up this base of buyers? Are there certain characteristics where there'll be certain buyers, they are friends of the company, but just tell us a little bit about that side of the equation.

Sean: Absolutely. So, the very first deal we funded way back in 2014, actually, was all friends of the company, every single buyer that participated in that deal I know and we knew that that wasn't going to be scalable. So then, in the very early days since 2015, at Kickfurther we instituted a buyer referral program so anybody can participate on the platform, Peter, you, me, my friends, anyone, it's open because what you're doing is you're purchasing physical goods just like you could on AliExpress or Alibaba.com.

So, it's available to everyone and we have this 10/10 referral, pretty standard where you get $10 if you bring somebody to the platform and they get $10 to try out the platform, you know, through this referral program. And since we've had that referral program, we have pretty much not had to spend any additional funds on recruiting the buyers for the platform, it's been very, very successful primarily through word-of-mouth now.

One of the experiments we've run in 2019 was just to identify, you know, was there a way that we could just find more people through Facebook or wherever else so we run some user ads in the early part of 2019 or 2020, but, typically, it's just word-of-mouth referrals for the buyers.

Peter: And are these all individuals or....some companies I know, this is not like an investment vehicle because these are people....you're buying physical goods, but do you have institutions participating as well?

Sean: So, we have a couple of guys that have set up a fund to, you know, what I would call normally super angels that really like what we're doing and they didn't want to have to wait at 3:00 pm everyday, to try to get into the deals. So, we have one fund that's currently participating on the platform which is pretty much these two guys and other than that, every single other entity is an individual. Now, we do have entity on-boarding so if there was a business that wants to fund inventory for other businesses, we can allow for an LLC, there's no strict requirement that it's a person, let's say.

Peter: Okay. And what about through an IRA, is that a possibility or not?

Sean: Yeah. So, we're looking at self-directed IRAs, self-directed 401(k)s, it's a bit of a manual process right now, but that's something we can help facilitate and we have a few partners that are helping us with that as well.

Peter: Right, right. So, I want to talk about the pandemic because.....I'm curious, there are certain areas, obviously, of the economy that....some retailers have done phenomenally well, some have done terribly and, obviously, everything in-between. Just anecdotally, on your platform it feels like the deals have kept coming throughout 2020 now into 2021, how has the pandemic impacted Kickfurther?

Sean: You know, I say that we were very lucky with this pandemic. So, one of the things that we do at Kickfurther, we do inventory finance and so one of the things that the way the world was right before the pandemic is that a lot of people that were funding small businesses, very specifically, didn't want to fund inventory. It was like an area that people didn't want to go so we knew that this was a problem and we were solving it and that meant that we ended up being significantly concentrated in e-commerce businesses because with e-commerce businesses, you know, one of the main cost is your inventory. And, if you can't find anybody to fund the inventory then, suddenly, Kickfurther became a very, very appealing option for those businesses in very little time.

So, we had probably 85/90% concentration in e-commerce prior to the pandemic hitting so when the pandemic hit and we saw that e-commerce, generally as a sector, saw a lift of anywhere between 20 to 40%, right. It actually ended up working out pretty well for a lot of the portfolio companies that we had and we saw.....you know, we've on-boarded some companies this year that had quadrupled sales. If you happen to be a business that was selling disinfectant and you've been doing that for two years..... like this literally happened where this company went from like a few million of sales to $24 Million of sales in one year selling just the same product that they've been selling, right. That's the type of growth that’s hard to fund if you don't have a platform or a partner like Kickfurther, right, so we saw that there is this product businesses that got huge lifts.

And then, you know, it was also pretty evident to us that there were product businesses like fashion did not do well in the pandemic, anything to do related to travel did really, really poorly, but what we found is that allowed those entrepreneurs to kind of just decided to sit on the inventory they had, right, and they are like, look, this year's going to be a wash and we'll get back to work in 2021 when our industries are going to come back around again. So, that's kind of the way it seems to us.

Peter: So, those companies that were doing well and suddenly, they did like, you know, 5X/10X volume, were you able to handle that, like can you like...maybe you can just describe how high you can go for some of these deals.

Sean: Yeah. I mean, we broke Kickfurther's largest deal record, we broke it three times in 2020 so it was like three months in a row. So, there's one company, Boulder Clean, you can find them stocked all over Colorado, our biggest deal was $630K. Two months later, that was a whole thing of disinfectants, they came back for another run of disinfectant, $1.15 Million of disinfectant and that's the biggest deal we've ever done on Kickfurther. So, that's pretty significant so that's good growth for us.

Peter: Obviously, you found enough buyers for them, but how long does a deal like that take?

Sean: So, because Boulder Clean....I mean, this was a specific deal where they had a buyer on the other end so they knew that they had, I want to say was a....Whole Foods was buying it, I'm not 100% sure, but they had a retailer that was ready to buy all of the disinfectant, they just needed to get it funded and we saw that a lot actually for businesses that were in cleaning or disinfectant, right, the demand was through the roof. So, all they needed to do was get the funding. I think the whole thing turned around in three months, it was maybe 4.5% in three months or something that they had a find a deal on the Kickfurther platform.

Peter: Right. That's what I noticed with your platform, with your deal, sometimes in three months or six months, but it's often this....between 1 and 2% a month which.....you know, if you're only doing it for three months that's fairly cheap financing. Just on that, you obviously know your customers talking to them all the time, I mean, is this their primary source of funding that they're using to operate their business or is this just one of...they're also talking with banks and maybe even fintech lenders to provide working capital?

Sean: So, what we very typically find is when we first join with a company, we are a supplemental funding for a whole stack of different people that have provided different funding. What we find is very quickly we take over that stack with the exception of banks which we still can't really compete with like an SBA loan, you know, it's really great and I appreciate the SBA support small businesses so I think that's great.

So we provide supplemental financing above that though, but that's typically the way it comes, they'll say, hey, I have this opportunity, I need additional funding just for this one opportunity. And once they learn how Kickfurther works and they see how, as they continue to participate, it gets better and better and better, we, very quickly, just take over all of their funding.

Peter: Right, right, interesting, interesting. So, can you give us a sense of the scale you're at like what sort of volume of deals you did in 2020?

Sean: Yeah. I was happy that we managed to fund just about $22 Million of deal flow in 2020, $8.5 Million of which happened in Q4, so that's our best quarter by a huge margin. We had 120% growth from Q4 to Q4. So, right now, you can anticipate...Q1 is normally a little bit slower, we have Chinese New Year coming up, but, right now, you're looking at anywhere between $500K to 750K of deal flow every week. It's kind of our target and we think...you know, we should be on pace to fund about $40 Million in 2021.

Peter: Right, okay. So then, most of these...you mentioned Chinese New Year and, obviously, some of the manufacturing is likely done in China, what's the mix? I mean, when you're sending money, is it mainly US-based manufacturers or you're sending it all over the world?

Sean: Yeah. So, we're seeing roughly 70 to 75% of payments are going to overseas suppliers.

Peter: Right, right, okay, fair enough. So then, I'm curious because, you know, you've pretty much invented your own niche here, you've really.....that's one of the reasons, I think, why you won the first pitch competition we had because it's something that no one had ever seen before. It was pretty smart and I haven't seen, you know, Kickfurther knock offs over the last several years, so who do you see as your competitors in this kind of financing space?

Sean: I think the way I look at it, our competitors are the people that are just providing revenue finance so we're looking at groups like Amazon Capital, Shopify Capital, Clearbanc, BlueVine. So, those are the people that are kind of on my radar as solving a very similar or sometimes the same problem for the same market which is small and medium growing businesses, you know.

Peter: Right, right. Do you consider partnering with some of those companies?

Sean: You know, I think I would be open to it. I think we can do inventory, I believe we do inventory better than anybody and I don't want to do any of the other stuff, right. So, that feels like it could be a partnership with some of these players that I mentioned.

Peter: Yeah, yeah. I mean, it certainly seems that way to me. So then, as you scale this business, I mean, what's the biggest challenge for you now, are you getting the word out like is it finding more buyers for the consignment, is it finding more retailers, I mean, what's the big challenge for your business right now?

Sean: Yeah. Our big challenge is really in awareness for product entrepreneurs to know that this is a tool and an option that's available to them. So, you know, there's a lot of people that want to talk to product entrepreneurs, there are a lot of people that want to put their services in front of them so, you know, kind of getting the signal through the noise and reaching that market, I would say, is what we're working on right now.

Peter: Right, okay. And then, how do you make money exactly? Are you taking like a fee for each deal, tell us what's the exact business model?

Sean: Yeah. So, we earn a 5% success fee if the deal is successfully funded so in that way we are 100% partnered with these businesses. We earn no revenue, no cost to try and put together a deal and to try the platform out. Only if you're successfully funded, we earn a 5% funding success fee and that includes all merchant transaction fees. So, if you look at......you know, Kickstarter charges you a 5% success plus 5% processing fees. Kickfurther is just flat 5%.

Peter: Right, right, okay. You know, we're recording this in mid-January 2021, brand new year, what are your goals for 2021?

Sean: Serve twice as many businesses as we did in 2020, let's start there, right, and then keep building. We have some really exciting stuff down the pipeline. Number one thing is we want to get the word out that we have a mobile app that's coming out to help product entrepreneurs run their product specifications and help them buy better with their manufacturer so that will be a pretty exciting new product that we put out into the market and it should hit in Q1.

Peter: Alright. Well, it's exciting to see you guys success, it's really been fun to watch how things have evolved over the last several years. So, Sean, really appreciate your coming on the podcast today and best of luck.

Sean: Thanks so much, Peter, this was great and we'll talk soon.

Peter: Yeah, okay, see you.

Sean: Bye.

Peter: You know, while Kickfurther is still in its early innings, I mean, obviously, they're hoping to do $40 Million in financing, clearly the need is probably in the billions, maybe even tens of billions so there's a huge runway that is out there potentially for Kickfurther. Sean and I were chatting after we stopped recording and there's a real need to kind of institutionalize this to really get to large, large numbers and they're looking at that.

In fact, just one thing I'll share is John Donovan, who is well known to many people in the lending community, formerly of Lending Club, formerly MasterCard and several other fintechs that he's worked with over the years and he's joining Kickfurther and very bullish on the company which to me...I take that as a positive sign and clearly, I think, it's a great opportunity for people who want to put some money to work, putting money to work on consignment.

I'm probably going to be increasing my accounts here as well and I think it's a great opportunity for all involved. It's a real "win-win-win" in many ways, win for the companies funding their inventory, win for the buyers. They're not investors, but that's kind of the type of entity that is putting money to work and I think it's obviously a win for Kickfurther as well.

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

Today's episode was sponsored by Lendit Fintech USA, the world's largest fintech event dedicated to lending and digital banking. LendIt's flagship event is happening online this year on April 27th to 29th with the possibility of an exclusive VIP in-person component. The verdict is in on LendIt's 2020 event that was held online with many people saying it was the best virtual event they'd ever attended. LendIt is setting the bar even higher in 2021, so join the fintech community at LendIt Fintech USA where you will meet the people who matter, learn from the experts and get business done. Sign up today at lendit.com/usa

(closing music)