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FINTECH ONE-ON-ONE PODCAST – ALEK KOENIG

Welcome to the Fintech One-on-One Podcast, this is Peter Renton, Chairman & Co-Founder of Fintech Nexus.

I've been doing this show since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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Peter Renton: Today on the show I'm delighted to welcome Alek Koenig, he is the CEO & Founder of Settle. Now, Settle is a really interesting company, started during the pandemic and they offer basically accounts payable software combined with a working capital financing solution and this is a perfect match and you'll find out why during this conversation and how really Alek and his team stumbled on a vertical that was in desperate need of this particular product at that time so we talk about that.

We also talk about in some depth how the working capital products works, how it's underwritten, what kinds of types of data they use, we talk about some of the brands that are using it today. Alek talks about his time at Affirm and how that has really informed how he runs Settle today. We talk about his Ukrainian team, the scale they're at and much more. It was a fascinating discussion; hope you enjoy the show.

Welcome to the podcast, Alek!

Alek Koenig: Thanks for having me.

Peter: My pleasure. So, let's kick it off by giving the listeners a little bit of background about yourself. I see you've come out of Affirm, like many other people I've had in the podcast in the last 12 months, it's a real Affirm mafia happening in fintech, it seems these days, but why don't you just hit on some of the high points of your career to date.

Alek: Yeah. Affirm was definitely the last thing I did before Settle. To your point about the mafia, you definitely feel it while in the company. There's just a lot of smart, ambitious people and you can just see them doing great things. So, started off my career at Capital One back in 2008 so great timing to be in credit and lending so I did two years stint in auto lending and then two years in personal loans and then I finished off my career there in the retail banking side. So, I feel like that gave me a great purview on consumer risk then I got really infatuated with startups and the best way to learn about it is to join one. So, I joined a tiny startup in LA focused on non-QM mortgages, did that for about a year and a half and then I found my way to Affirm back in 2015 and stayed there till 2019.

Peter: Okay. So, what was the impetus then to start Settle, what was the idea, tell us a little bit about the genesis of the business.

Alek: Yeah. Many people thing it's just something I stumbled upon at Affirm, but that's actually not the case. So, right after Affirm a friend of mine asked me to take over as CEO of his startup, it was tiny, three people so I joined there. It was a try before you buy the business and I just couldn't really figure out the unit economics of it and how to make this work long term. So, I decided to shut it down and this was all within two months so pretty rush, but during that experience I was using this accounts payables software that I just thought was the worst product around.

So, when I was thinking about ideas after that, one of the ideas was hey, let's just create the best-in-class payables software for small businesses. So, that was really the initiating idea and then, you know, when I think about building companies I really think about, you know, is there founder market fit and, you know, my background is really in credit and lending so well, we could combine this with working capital then I think those things will tie together. In that case, I really think we could actually change the trajectory of these businesses instead of just saving them like a couple of hours a week.

So, I interviewed a bunch of companies over the next month, just really determining that this is a pain point and if this would be really appealing to them and it seemed to really resonate with a lot of companies. So, that gave me enough interest to actually kick things off, so I recruited the team that I was working with at the small startup to join me on this journey and we started it all back in November 2019.

Peter: Okay. So, did you launch with the working capital piece in place or was it really more of a Saas type product, what did you launch with?

Alek: We launched both with accounts payable software and working capital. You know, I think when you hear from people like Vinod Koshla and Keith Rabois they really stressed on like doing the hard thing first so if you could really do the hardest thing upfront then it will be a little bit more smooth sailing down the line. So, for me, it was like a kind of combo product that was very unique and would actually unlock these businesses, so we launched in the summer of 2020 with actually two working capital products and accounts payable software. I didn't know which working capital product would resonate so we kind of increased our chances of success and one of them took off and that's kind what we doubled down on.

Peter: Interesting to kind of launch a working capital product right in the height of the pandemic with PPP that was already out there. Tell us a little bit about those early days, how was the traction?

Alek: Yeah. Initially, I think one of my biggest mistakes was really not thinking through the market deep enough and we're kind of focused on any small business. So, you know, if you're a SaaS business or this business, whatever, this should work for you and the initial traction was really from companies and e-commerce channels. Once we kind of noticed that, that's where we just didn't do a hard bid or a soft bid, we really focused on e-commerce merchants, I said, okay, this is our hero of customer segment, this is who we're going to go after, we're not going to even worry about any other companies. So, what really made sense then was because we were locked down, all the retail offline channels, you know, stores went offline so everyone came online.

So, what that meant for these e-commerce businesses is that they are running out of inventory left and right, they have sold their products online. And what do they need to meet the increased demand is they need working capital, they need to procure more inventory, they needed to procure more marketing, so it was just very, I think, fortunate timing for us to really take advantage of that. So, you know, after getting our first ten customers I think the next 200 were all word of mouth so these founders of these businesses were just spreading the word to their other friends or other operators saying like hey, this really helped my business like you should check this out.

Peter: Okay.

Alek: The demand was insane for us and we were just barely able to keep up with the demand.

Peter: So then, maybe you can tell us exactly how the working capital product works, I mean, what are you actually underwriting on? Just describe the basis of the offering.

Alek: Yeah. So, taking a step back, the core product is accounts payable software so what does that mean? We're really handling and managing our customers' invoices from their vendors so are ingesting those bills, we're reading all their information from there to enable one could pay and scheduling, we allow them to categorize it so it will sink into their ERP like Quickbooks, NetSuite. So, once we handle all that the customer can, you know, schedule a payment to their vendor so we could process that payment for them, great. So, the way I thought about the working capital product was well, if these companies needed to spend the time to actually pay their vendors, why don't we just simplify that and, you know, introduce the lending decision there.

So, hey, if you want to pay this invoice with your own money, great, if you want to pay with our money aka financing you could do that too all with one click so that's where we're really enabled. So, effectively, Settle will pay the vendor directly with Settle's money and then the brand could pay us back anywhere from 30 to 150 days later which is really depending on their cash conversion cycle. So, for these e-commerce merchants, all of them have a very similar pain point where they need to procure inventory way ahead of time before they could actually get revenue from those inventory purchases, the ROI so clear for them because, you know, they have some gross margins on their products so, you know, they've got to procure things.

With a 60% gross margin, for example, I know I'm going to get much more money down the line once I've sold all these goods and I think a lot of the logistics and freight, stuff during COVID really elongated these cash conversion cycles. So, a product like ours just made so much sense for them and it's very useful for these companies to actually tie specific loans to specific revenue from that specific inventory so it's a very clean way thinking about it.

Peter: Right, right. So, it's really invoice financing, it sounds like, what you're offering and I'm just curious about, like you talked about some of the timelines, you said you've got like five months, I imagine for some of them that might not even be enough. I mean, is that the maximum term that you'll go out?

Alek: Today, it's 180 days……

Peter: 180 days.

Alek: …..the maximum we'll go out so I think for 90% of businesses that definitely works, for others, you know, especially once they start not only to have a long procurement cycle but then they're also selling into retail and, you know, those retailers are providing additional net terms for them then sometimes it can get longer, but, for the most part, that kind of fits the bill. And, generally, you know, my personal view is if your whole customer cycle goes longer than that then that's a really difficult place to be, it makes you less nimble and it's harder to kind of predict or forecast the future.

Peter: Yeah, for sure, for sure. But then, obviously, you've got a lot of these companies who work with multiple vendors, right, so they might have three, four main vendors that they're buying from, they would potentially do four different types, like four different kinds of one-click applications then?

Alek: That's right, that's right. So, our other view that's very different from the market in general is that like, you know, I think most lenders will deposit a bunch of money, you could use it as you wish and will just start charging you interest on it.

Peter: Right.

Alek: So, I think what's kind of bad there is that you can't actually use all that money right away because most of these monies are going to be sitting in your bank and you're just going to be paying interest on it which doesn't make sense to us. So, it's like if we tie this actual payment out to the vendor then you're only paying for money that's actually in use which is going to reduce the overall cost to the merchant. I think, you know, our companies might have 20 different individual loans out at the same time, we keep all the long terms the same so we're starting the same flight APR across all these different invoices, but their products are a little bit different that way where you might have 20 different individual loans instead of like one big lump one.

Peter: Right, got you, got you. So, can you take us through the underwriting process, how does it, like are you underwriting on the company, what sort of data are you looking at to do this, like are you looking at sort of longevity, just tell us how that process works.

Alek: Yeah. It's definitely evolved over time, but the data sources have remained the same. So, my experience in B2B lending is, you know, credit reports are fairly junk, they're not as rich as consumer credit reports so they're not as useful as you think they might be so we really rely on first party data so we're connecting into two data sources. Because we are the account payables software, we're getting access into their accounting software like QuickBooks, NetSuite and we're also connecting to their bank account, so we use a few providers there.

So, effectively, for us to process a payment on behalf of these merchants, even if they're not borrowing money from us, we use, you know, one of these bank connections to fulfill that transaction so that gives us access to these two data sources. So, one is their accounting books so we're getting stuff like P&Ls, balance sheets and from the bank data, we're getting transaction data that goes back historically and then also movement for it as well.

Peter: Right, right. And what are the range of terms like as far as interest cost on this capital for the end-user?

Alek: Yeah. So, we definitely abide by state-by-state APR requirements so we're definitely not doing any merchant cash advances or anything like that. Our APRs usually range from 12 to 24% but that also depends on state, you know, some states might cap that to be a little bit lower and that's something we take into account. And the terms, as we mentioned, are really like that kind of 30 to 150/180 range and that amounts go anywhere from $50,000 to a million.

Peter: Wow, that's a pretty good range. Then what about the capital markets side, how are you funding the advances of the working capital loans?

Alek: Yeah. I think, you know, very similar to what I kind of experienced at Affirm so we'll start off with some warehouse lenders so, you know, our biggest warehouse facility is from Citi and Adelaya. So, they're providing us a warehouse where we could pledge our assets, aka these loans, they'll give us a percentage of that back in cash and then depending on the timing of this we'll have announced another warehouse facility with another bank to help us keep scaling. But, you know, as you kind of think about the longer-term playbook, at some point we will do whole loan sales, at some point we will do ABS deals, just give us, you know, diversified and also cheaper capital down the stack.

Peter: Okay. So, I want to talk about the accounts payable piece, what is that you did, you know, there's a lot of accounts payable software out there, what is it that you've done that makes this unique in the industry?

Alek: Yeah. The biggest thing, I think, is the user experience, you know, it really looks like it was built yesterday, and it feels that way as well. So, I was really trying to take like the consumerization of business software so really provide like a consumer-like experience for software really aimed at businesses. When we kind of think about like who is our customer, it's really these e-commerce founders and that's the kind of experience they expect, that's what they've experienced over the last 15 years, so we need to meet them where they are. So, that's one of the biggest reasons, but because our products suite also offer working capital loans, economics can be a little bit different. So, effectively, we can make the accounts payable software very cheap because of that and not have to, you know, have specific gross margins we need to make on the software because we have this other revenue stream that's helpful to our business.

And I think the other thing is it's very snappy, very quick, payments are quick I think relative to other accounts payable softwares, you know, we're probably the fastest. And that's very important to brands because, you know, the trades that they're making really revolves around it, like if we don't pay their supplier in China or somewhere else then those goods might not get on the boat for them to get it which really hampers their business. So, we need to make sure we have the fastest payments in the industry.

Peter: Right, got you, makes sense, okay. So then, can you tell us some of the…what are some of the brands that you're working with today, are there any brands that we might know?

Alek: Yeah, I think absolutely. We have Branch Furniture which was one of these crazy growth stories where they had to do a pretty hard pivot during COVID, you know, selling office furniture and turning that into direct-to-consumer, it was pretty meaningful for them. Wallow is a baby brand which is selling some very unique, beautiful products, not only starting direct-to-consumer but now they have their own store fronts to really help accelerate that. I think Italic is a very unique business where they are creating this marketplace membership style selling goods directly from their suppliers and I think the list goes on and on and on.

Peter: Right, okay. So, I'd like to ask you about embedded finance because in some ways you're sort of a poster child for this whole movement because you're kind of embedding the payment facility under the lending facility into one experience, like the fact that we are in a pretty sophisticated world now when it comes to embedded finance, how has that made it easier for you guys maybe to grow your business or to operate it.

Alek: I definitely think, you know, there's a lot of infrastructure companies that have really helped us make it easier for businesses so, you know, from having international payments to working with banks, integrating with banks has really helped us grow quicker and actually find product market fit much quicker. So, when you kind of think about what we launched with from domestic payments, international payments, lending and software all built with a team of, you know, four or five people that's pretty amazing when you take a step back and think about it. Ten years ago, you probably couldn't do that, that's probably a lot of millions of dollars and a lot of people working at it and those things, but, you know, there's a lot of these like turnkey-like solutions out there to help us do that.

You know, when we were starting the company, the thing that I was thinking about a lot is, you know, phase one we're just like a software company, phase two was really about embedding payments into the software, but for me it was really taking it to phase three or phase four. I was like, hey, not only are going to embed payments in the software, we're also going to be in lending and we're also going to embed accounting because for me if you're a business and any money is moved, that money needs to be accounted for so why don't we just take it off your plate as well and really save you a lot of time. So, let's jump the gun there and do a lot more for your business than you might if you just go to some other company and then you're going to have to do a lot of work on the back end to kind of reconcile all that.

Peter: Right, that makes sense, that makes sense. So, I want to go back to Affirm for a second, I had Max Levchin on the show just not that long ago and he said some really interesting things about the entrepreneurial spirit inside Affirm which we've touched on. But I'd like to frame the question this way, from your time at Affirm how does that inform how you run Settle today?

Alek: Yeah. I definitely took away a lot of things away from Affirm. The startup I did before Affirm, you know, it was a small team, first time founder so I think we definitely learned a lot of things, especially like what not to do at a startup. So, one of my main reasons for joining Affirm was okay, I learned what not to do here but I really want to learn what to do. Max has done this a few times, he's probably the best in the game so if I could just absorb what that company does, what he does, I think I'll be in a better place.

So, I joined when it was about 50 people, Affirm has about 800 so there's definitely bases within the company and you can kind of notice like okay, things needed change here to make sure we're firing on all cylinders, but I think the best thing I took away just like the culture we built. So, from, you know, being very first principles thinking, being very collaborative, very humble, but mostly just working your tail off. I think that's something I was able to accomplish so that's something I'm trying to kind of partake here. So, I think we have a lot of extra partners as well that I work with at Settle so we're able to kind of like exponentially grow that kind of culture here as well.

Peter: Right. So, when I was doing a little bit of research on your guys for this interview, I found that you have a Ukrainian team, in fact, they're part of......I don't know if you have Ukrainian co-founders but that was certainly early on, it seems like, in your development. Tell us a little bit about that, you know, are they still around, how have they been impacted because obviously Ukraine has had some challenging times the last 12 to 15 months.

Alek: Yeah. It's definitely been very sad, very frustrating but they're all bearing through, you know, there's more we could do to help but these are kind of like out of our hands. Yeah, the three people I worked with that small startup right before Settle are all here at Settle as well so really founding members. I just thought they were so talented, so smart, it was like I've got to do what I can to keep these people employed so I pitched them on Settle back in the day. They were in Ukraine so I actually flew there when I was shutting down the previous startup that they worked for and pitched them on Settle and they all said yes. So, yeah, they're just so daunted.

Peter: Are they still there in Kiev?

Alek: Yeah. One person got out; I don't know if I should be saying that, but the other people are.......we actually run a team there so I think there's about 15 people there now. They actually have, I think, the nicest office in the neighborhood offices (Peter laughs) so it's mostly the engineering team, I think they account for about a third of our entire engineering team, but some of design is there as well. So, yeah, they're just such an integral part of the company, you know, this isn't like a dev shop by any means, everyone gets equity and are here for the long term, this is not viewed any differently than like a US employee by any means.

Peter: Right, got you, got you, okay. So, can you give us a sense of the scale you're at today, any metrics you can share on that?

Alek: Sure, yeah, you know, hundreds of companies, still growing. I think the biggest thing for us was for a long time our growth was organic so just this word-of-mouth so the biggest investment we've been kind of making over the last nine months is really about building around go-to-market motions. Organic growth is nice but that doesn't mean you have the strategy or a playbook so, for us, what can we do to actually 3X,10X this business so it's a big DNA change for us because we had to build all these new muscles that we just didn't have. So, that's been a lot of the focus now to kind of take this, okay, how do we get to, you know, thousands of customers and then tens of thousands of customers and so forth and so forth.

Peter: Right, right. So, it looks like you guys haven't raised equity capital for a while, 2021 was what I saw anyway, clearly, fintech is a different environment for raising capital today on the equity side anyway. How have you navigated this downturn, the fintech winter that some people are calling it, how are you kind of navigating? Have you changed your business in the last 12 plus months?

Alek: Yeah. I wouldn't say it's fintech winter, I think it's just back to normal, right.

Peter: (laughs) Right, we had a roaring summer, I guess.

Alek: Temperature, global warming, but, no, I don't think anything is bad, I just think it's more appropriate.

Peter: Right. A lot of companies, a lot of companies have done layoffs, it doesn't sound like you guys are a part of that, but, you know, there's.......

Alek: Right, right. We definitely had employees ask, hey, are we doing layoffs, are we going to have layoffs. I was like, layoff who, we're too small (Peter laughs) everyone here is so critical. So, I think, you know, for the longest time.......I took a lot of pride in being a very efficient and small team and I think really the roaring summer, as you mentioned it, I was like man, we should be bigger, like we can be accomplishing so much more. And I think it's kind of reverted back to the mean, I was like oh, thank God, we didn't over hire because that would have been very painful.

Yeah, for us, we didn't do layoffs, for us it was really about just making sure we're not getting over our skis so as long as we're reaching the internal metrics to drive this business and keep it alive that would be a good spot. You know, I don't think anyone wants to raise equity, we're just kind of brings in dilution, right, you know, raising equity isn't a goal or anything, it just kind resets the bar we need to accomplish so I don't it's really a celebratory event, it just means you have new bosses you need to work for. (Peter laughs)

So, you know, because we raised a big round and brought in some great partners, you now, Ribbit Capital which I admire a lot, for us it's really about, it's more of a luxury so okay, if we do all the things we say we're going to do then we will be able to make the decision of hey, do we want to raise equity and kind of really grow the employee base from here on out or do we essentially not want to and just continue driving good business strategies.

Peter: Right, right, got you, okay. So, last question, what's your vision for Settle, where are you taking this?

Alek: Yes. So, we really want to build a very quick-focus payments network so when you kind of think about what sells, we bring on a lot of our payors, we call them that, so people who are paying other people, we're actually acquiring a lot of vendors as well. So, effectively, we're starting to create this payments network and because we're very vertically focused in this e-commerce channel, we could drive a lot of efficiencies to both parties because, one, of the data that we have and then two, just like the payments network that we've been building.

In the same way we're trying to solve cash flow issues for our brands and really build this cash flow management platform for them where we could, you know, give them the insights and information to make the right decisions but then also just give them the tools to make the right changes in their business. The same thing we could do on the vendor side as well so if we know, you know, our brands want to pay later then we kind of know these vendors want to get paid sooner as well.

So, effectively, we want to use those payments, lending and accounting for both parties for this ecosystem and actually drive a lot of efficiencies to those parties. So, that's kind of the vision that we're building towards, you know, but we can't accomplish it in one day so we need to take these building blocks and really approach them sequentially in the right order to help get us there.

Peter: Right, interesting. We'll have to leave it there, Alek, best of luck to you, thanks so much for coming on the show today.

Alek: Absolutely, thanks for having me.

Peter: Okay, see you.

I hope you enjoyed the show, thank you so much for listening. Please go ahead and give the show a review on the podcast platform of your choice and go tell your friends and colleagues about it.

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

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