

Podcast with Rob Frohwein and Kathryn Petralia of Kabbage

***Note that transcripts may sometimes contain errors and that transcript timing notations do not match the posted podcast**

- Speaker 1: [00:04](#) Everybody, we have here Barefoot Innovation Podcast. Welcome.
- Jo Ann Barefoot: [00:11](#) Thank you. We're so happy to be here. Yeah, this is our Barefoot Innovation Podcast show and we're excited to be here at Lendit and I'm excited to have as my guests the co-founders of Kabbage, Rob Frohwein and Kathryn Petralia. We're going to have about a ... up to a half an hour. Rob is going to be on the main stage shortly, making a speech on how to have a clear vision for your startup.
- Jo Ann Barefoot: [00:38](#) So just to start out, let me just ask you both to introduce yourselves. Say a couple of words about what brought you to what you're doing and then tell us about Kabbage.
- Kathryn Petralia: [00:51](#) Hi there. I'm Kathryn, co-founder with Rob here of Kabbage and an airplane brought me here today. That was lovely. I've been in fintech for over 20 years and when Rob had the idea for Kabbage he gave me a call.
- Jo Ann Barefoot: [01:04](#) Can you hear her okay? Yes. Thanks.
- Kathryn Petralia: [01:07](#) Great. So that is how I came to be here today.
- Rob Frohwein: [01:13](#) So Rob Frohwein, co-founder with Kathryn and I had the idea for Kabbage over 10 years ago. It's really shocking that it's been that long. It was really an idea that was born from the recognition that companies were making APIs available so that third-parties could access data to provide services to the customers that utilize that particular platform. Ebay was a very popular one and I thought well wouldn't it be really interesting to access this type of data via APIs for underwriting small business customers? And so that was really the genesis of the idea. But really we started with e-commerce companies because they were the easiest to serve at that point. But now we serve really any small business that we're legally permitted to serve.
- Jo Ann Barefoot: [02:04](#) I'm always excited when I have known of a startup for a long time and then I see you with TV ads, which is pretty cool that you guys are really making the big time. So talk a little bit about the marketplace for small business lending. What was missing and what are the solutions that are emerging through better technology, other than API connections?

- Kathryn Petralia: [02:31](#) I think a lot of people think that the reason there was an opportunity for Kabbage and companies like ours was because of the last financial crisis. But actually this has been a challenge that small businesses have faced for millennia, probably. Businesses looking for less than a quarter of a million dollars have a hard time getting a loan from a bank, not because the bank doesn't want to serve them, all of our customers have a checking account with them, but because it's not cost effective for them to deploy smaller amounts of capital. So this problem predates the crisis and the only reason that we're able to serve them effectively is because of technology, because of our access to the data that can help us in real time understand exactly how their business is performing today and how it's likely to perform in the future.
- Jo Ann Barefoot: [03:13](#) Go ahead. Okay.
- Rob Frohwein: [03:15](#) I don't really have anything to add. Even though a lot of small businesses have been served, there's lots of companies out there serving small businesses right now, which is great. We're always looking to the future and trying to figure out where the market's going and getting to different levels of understanding about our small business customers. When we started we were really focused on the technology solution. And I think what's happened over the course of 11 or 12 years now since I had the idea is that we've realized that we're really helping a tremendous number of small businesses. So it's helped us sort of recast the way we think about the future and our part in that future.
- Rob Frohwein: [04:00](#) And for us it's really about helping small businesses solve their cash flow challenge. Let me differentiate that from lending. When a customer borrows from us, that's just one piece of the puzzle, their cashflow conundrum. They have to think and manage through the receipt of revenue. They have to think about the bills they are going to have to pay. They have to think about the timing of everything. And it creates really undue stress and pressure for that small business owner in an area that they're not expert. If they started a bakery, it's because they're great at baking delicious treats for their customers, but they weren't really focused on how they manage cash flow so they end up spending way more time in this particular area and frankly are much less effective than we could be doing that on their behalf. So a lot of our solutions are moving to blend

lending with other financial services that allow them to put more time back into their business, into their family, into their hobbies, anything but worrying about money.

Jo Ann Barefoot: [05:04](#) Rob, do you want to give us a little quick preview of what you're going to say about defining your vision? I think that you're probably touching on it there.

Rob Frohwein: [05:13](#) Yeah, so the talk ... So now you don't have to go to it so there could be fewer people out there for me to look at ... Is about an hour or something like that. But it's called You Might Need Glasses, Your Vision Sucks. We're passing out a little prize in the beginning so make sure you're there. It's like getting a bobble-head doll at the start of a sporting event. But really focused on helping people realize where we were at one point and the lack of vision and how you really arrive at thinking about that corporate vision and why it's actually important.

Rob Frohwein: [05:50](#) I think a lot of people when they want to create a corporate mission statement or vision statement, they go to Google and they just Google it. And that's not the way to build a company. If you set the right vision for your company, that's the direction that everybody is marching in and it's really, really important. And that's the message you reinforce with your customers. That's the message you reinforce with the media, with analysts and others. And so it's really helping people understand why that is so unbelievably critical to the success of whatever business they're running.

Jo Ann Barefoot: [06:26](#) So you think it's harder than it seems?

Rob Frohwein: [06:28](#) It can be super easy, but you get out of it what you put into it.

Jo Ann Barefoot: [06:32](#) Yeah. You talked about the fact that APIs were the enabling technology that got you started on this, but I know another area that you've done a lot of work in and we've communicated on is the emergence of new data to bring into the the underwriting environment. Can you talk about that, Kathryn, what's the opportunity there and what are the potentially the challenges?

Kathryn Petralia: [07:01](#) I think actually in many cases it's the same data that everybody's using, but it's the manner in which we connect to it that makes us different and gives us the ability to offer a different kind of product to our customers. Yes, we do use some nontraditional data sources like social data or shipping data, but

we also use checking account data and accounting data and payment processing data, and this is all traditional data, but the fact that we collect it in real time and that it's always verified and that our customers are required to give us direct access to the data allows us to offer them a more useful product. Getting back to what Rob said, we still think our customers are borrowing too much from us, and maybe not as frequently as they should, but too much at one time and spending too much on that. So this data enables us to allow them to tailor or to let us tailor for them, their experience and the dollars that they're using.

Jo Ann Barefoot: [07:50](#) So how does that work? What's the communication with them on that?

Rob Frohwein: [07:56](#) We're in the early stages of it but really what it is is ... It's funny, we were talking one day internally and we were talking about different products and financial services, payments, ARAP management, deposit and all these things and really those terms, that terminology, payment acceptance and all that, that's manufactured by all of us by folks in financial services. That's not the way small businesses think about it. I can tell you because I was a small business owner before I started Kabbage. And really what these folks are thinking about is the money coming into the business, the money going out and what's left over if they have anything leftover. So organize the company and organize the products and services really around that. And so we aim to not only help them understand each of those components of their business, but actually we're moving into the services related to each of those services.

Rob Frohwein: [08:51](#) So Kathryn announced last year and we're in the early phases, and I've already launched in pilot, payment acceptance and we have a bunch of customers on payment acceptance, but it's a product that is rooted in making sure it's the easiest experience in the best out there and competes with all the major payment acceptance companies. But it also takes into account all of our knowledge and all of our diligence around risk and lending and the borrowing from the customers and making sure that we can ebb and flow the cash so that they're getting exactly what they need, when they need it. So, more to come on that.

Jo Ann Barefoot: [09:28](#) So on Barefoot Innovation, we always talk about regulatory innovation, which some people think is an oxymoron, but nevertheless, as you know, the regulators are working hard to

figure out how to do a good job of enabling and permitting desirable fintech while also dealing with risks, worries about data and that kind of thing. Privacy and so on. Talk about the regulatory environment a little bit. Do you feel that the environment makes it difficult to serve customers better or is it pretty healthy and what should regulators be thinking about?

- Kathryn Petralia: [10:14](#) We've worked with closely with regulatory authorities really almost from the beginning although the last five years, I think there's been increased scrutiny in the space simply because there's more awareness.
- Kathryn Petralia: [10:25](#) I'm, dude, I'm going to have to eat it if I get it closer. Okay. Can you guys hear me? Okay?
- Kathryn Petralia: [10:32](#) Having always worked in a regulated framework, or for most of our existence, we're comfortable talking to regulators about what we do. What we've found is what's really important is education. Spending time to help folks understand exactly how we're the same and how we're different from other providers in this space. And understanding what's really important for customers. What we heard a lot of over a long period of time was pricing disclosure and there was a lot of concern that small business borrowers didn't understand exactly what they were getting into. And so that's when we formed the ILPA and the SMART Box, which allowed lots of lenders to be able to disclose to their customers exactly what the pricing is across multiple products. And that was important.
- Jo Ann Barefoot: [11:13](#) Say what the ILPA is.
- Kathryn Petralia: [11:14](#) The ILPA is the Innovative Lending Platform Association and Sam back there is really excited that I said it right because usually I say Internet, no Internet, yeah. But I did it the right way I think. Yeah. Okay.
- Jo Ann Barefoot: [11:26](#) Great. So there's been a lot of interest in importing the consumer protection regulatory framework from the consumer space into the small business space, including requiring APR disclosures and that is underway in some places, do you have a view on that? Is that a good way for people to understand the price?
- Kathryn Petralia: [11:54](#) Yeah. So the challenge with APR is that it's typically a consumer measure and it reflects what it would cost you for usually a

depreciating asset, buying a television at an electronics store, for example. But for small businesses, the way they use capital, they use it to generate revenue and attaching an APR to a revenue-generating asset fails to include all of the dollars that should be in the numerator of that calculation. And so from our perspective, it's important for customers to understand exactly how much they're going to spend in fees in addition to whatever sort of APR or rate you want to disclose to them. And that's the questions that our customers are asking. How much is it going to cost me to take this loan? And we want to make sure that they're able to answer that question not only with Kabbage but with any other lender so that they can compare rates across multiple products.

Rob Frohwein: [12:45](#)

And as one of the founders of the ILPA, we initiated the SMART Box disclosure, which is a Schumer-like box, which helps customers compare small business loans across multiple providers. And I think that's been a big advancement and we've gotten a lot of positive feedback for doing that. So we're big proponents, the ILPA has always signing new members to start using that as a disclosure routine.

Jo Ann Barefoot: [13:16](#)

I do a lot of work with Flourish Ventures, which recently spun off from the Omidyar Network and they're trying to modernize the regulatory framework. And one of my views as someone who's been in the consumer regulatory space for decades is that there's a lot wrong with that model in terms of how well it's protecting people so we shouldn't necessarily import it into small businesses without thinking it through. So what else do you want to share with the audience here? We've got a few more minutes.

Rob Frohwein: [13:53](#)

I think one of the things that has been great is seeing PSD2 happen in Europe and we would love to see more organizations participate in regulation like that so that there's more data access customers. We were at a treasury event in probably 2012 and we talked about how there're two sides of the coin. On one side is privacy. On the other side is the fact that you really own your own data. And the fact of the matter is you should be able to take that data and bring it over for whatever purpose you need to do, which is if you're applying for another loan or you're applying for buying a house or for an automobile or you're getting a job or whatever it may be, your data should be your data. And so we're big believers in that kind of legislation

sweeping through, also through the U.S. So that's one area where I think I think is pretty important as well.

- Jo Ann Barefoot: [14:58](#) Yeah, privacy is an area where clearly there's been state regulation, there's going to be more federal, probably federal regulation, and we have to figure out how to get it right so that the data can enable people's digital lives to be thriving but still protect their privacy.
- Rob Frohwein: [15:15](#) Couldn't agree more because one of the things that's ... Look, we're a trust-based organization. Customers work with us because they trust us. The moment we violate trust, we not only lose that customer's business, we lose everybody's business. So it is the single most important thing and the thing that really keeps us awake at night, making sure that our customers' data is protected. At the same time, we need a uniform approach to privacy across the U.S. as opposed to a state-by-state approach. When you have 50 different regulations, it's very difficult to innovate. It's very difficult to figure out a solution and to be able to make sure that when a customer applies, where are they applying from, what law should apply? It frustrates the whole world of innovation. And so a single regulatory framework is something ... I guess that's, is that the music that we're getting kicked off? ... Is something we're a big proponent of and anything else we can do to protect our customers' privacy.
- Kathryn Petralia: [16:18](#) I'd love to add onto that that even at the federal level, when you think about innovation and regulation, there are things like FCRA, the Fair Credit Reporting Act, that mandates what type of data can be used to make a decision on personal business lenders, so it doesn't affect us quite as much. But for consumer lenders, the fact that ... If Facebook data could potentially be used to help confirm the identity of someone or to help understand the longevity of their relationships, which could be a predictor of credit quality, you can't do that today because FCRA didn't contemplate that particular option when it was written and rewritten and it's really hard for lawmakers and policymakers to even consider revamping all of those regulations.
- Kathryn Petralia: [16:59](#) And so it's like every time you think, "Oh, I have a great idea for something," you run into a wall and you have to figure out how to get around it. And people have good intentions. They want to help consumers and just, as in Flourish, they want to invest in

companies that can help customers use their data to get better access to better products. But sometimes regulation makes it harder unwittingly. Nobody anticipated that when FCRA was written, but that was the impact.

Jo Ann Barefoot: [17:24](#)

Yeah, exactly.

Jo Ann Barefoot: [17:26](#)

Kathryn, you are one of the most prominent women in the fintech space and actually, there's an event going on right now for women in fintech, a luncheon that I'm missing because I'm here, but can you talk a little bit about diversity and specifically gender diversity in the tech and fintech world and how should we get more of it?

Kathryn Petralia: [17:51](#)

I have found that there have always been a lot of women in financial services and even in fintech, where you don't see them necessarily at the executive levels. I think you're seeing that start to change over time. And what I love about coming here, I mean you look around, there are tons and tons of women, not right here cause they're all at that luncheon. But I think when everybody appreciates is that our customers, half of them are women. If you're a consumer lender, more than half of them are women. Women influence buying decisions in most households, and I think businesses are beginning to recognize that the only way to understand their customers is to have them represented at the executive levels of those organizations. So I think awareness is rising but I don't think it's just because they're saying, oh well we need to have gender diversity. I think they're really appreciating that there are tangible revenue benefits associated with that type of diversity. And I'm proud of our industry for getting there.

Jo Ann Barefoot: [18:45](#)

My other company is Hummingbird and we're recruiting and have our eye on gender diversity. One of our male co-founders wrote what he has termed a diversity manifesto, which we have on our website. Really interested in getting more women engineers. And last thoughts on advise, how many people in the audience are with startups? Lots of them. So give each of you some advice for companies that are trying to do what you're doing.

Rob Frohwein: [19:24](#)

Well, first of all, you should leave from here because the more you know about the industry, the less you'll probably want to start a company in it. No, that's -

- Jo Ann Barefoot: [19:32](#) Especially the regulatory part. Yeah.
- Rob Frohwein: [19:36](#) I think Kathryn and my path here has been a tortured one. That's just the life of a startup and it doesn't mean that bad things have happened, it just means it's really hard. We're actually only 28 each ... I'm joking, no. That's how much this job has aged us. I'm an entrepreneur at heart. I'm a big believer in it. I will always be an entrepreneur. I think if that's what is part of you, you have to go for it, get as much advice, learn from as many people as you can, make different mistakes than other people have made because you know if you make the same mistakes, it just means you haven't spent enough time learning about the business and not just learning about the business but listening.
- Rob Frohwein: [20:24](#) I find so many people that I talk with that are starting companies or in the early phases, you tell them about the hardships you went through when you were going through it and they yes, yes, yes. But they always think their pursuit is going to be different than yours and so they talk themselves out of heeding your advice and pushing forward. There's a difference between not being dissuaded from a pursuit and actually listening to good advice and getting there.
- Kathryn Petralia: [20:52](#) And what I was going to say is kind of similar to that. I read this article years ago in New Scientist magazine about human behavior and people perceive critics as being smarter than supporters. So everybody always wants to say something negative. They always want to tell you why your thing won't work. Challenge people, say, "But why wouldn't it work?" And remember that most people are just trying to seem smart. Sometimes they're right, but a lot of times they're not.
- Jo Ann Barefoot: [21:20](#) You're not going to start a company if you're easily dissuaded, that's for sure. Where can people get more information about Kabbage?
- Rob Frohwein: [21:26](#) Kabbage.com. You know what's so funny is that we used to say Kabbage with a K, but when now we own Cabbage with a C.com as well. So you can actually get it at either location.
- Jo Ann Barefoot: [21:40](#) Excellent.
- Rob Frohwein: [21:41](#) And yeah, tell all your friends.

Jo Ann Barefoot: [21:45](#) Did the name Kabbage, does it refer to money or where did it come from?

Rob Frohwein: [21:49](#) it does, it's a slang term for money from the early 1900s.

Kathryn Petralia: [21:55](#) If you Google Cabbage with a C, the second definition is money.

Jo Ann Barefoot: [21:59](#) Ah, very interesting.

Kathryn Petralia: [22:00](#) Not because of us.

Jo Ann Barefoot: [22:02](#) And we will put more information about you both and about Kabbage in the show notes for Barefoot Innovation, which is at jsbarefoot.com. So I just want to thank both of you for being my guests today. You've been fantastic.

Rob Frohwein: [22:14](#) Thank you for having us.

Kathryn Petralia: [22:38](#) Thank you.