

Ivey Entrepreneur

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Lending Loop: Ivey grads challenging the big boys

Entrepreneurship is often about finding solutions and addressing gaps in the market. Some solutions are more complex than others and Cato Pastoll, HBA '14 and Brandon Vlaar, HBA '14 can testify to that. They're challenging Canada's big banks and financial system.

Lending Loop is a peer-to-peer lending platform that allows users to invest with as little as \$50 in small businesses across Canada. It sounds like a simple, yet great way for anyone to invest locally and support Canadian small businesses. While similar lending platforms are common in many

Western economies, Canada isn't one of them. The problem is twofold, with small and medium sized businesses having difficulty accessing affordable financing through major financial institutions and those individuals willing to invest having no means to do so unless they are accredited investors; who generally have individual annual incomes north of \$200,000.

In the days and months leading up to Lending Loop's launch, Pastoll and Vlaar weren't sure if they would be able to get it off the ground. Despite a large amount of technical and compliance wrangling, Lending Loop officially went online in October, 2015. Through the platform, small businesses can apply online for loans up to half a million. Approved requests are listed on the site's marketplace where they can attract individuals looking to partner together with other individuals to effectively crowdfund investment opportunities.

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InstituteBuzz

Entrepreneurship is the dynamic aspect of business. It never stops experimenting, bending and shaping business practice and disrupting old business models. In this issue of the Ivey Entrepreneur you can read how HBA '14 grads Cato Pastoll and Brandon Vlaar are looking to change the way small businesses access capital.

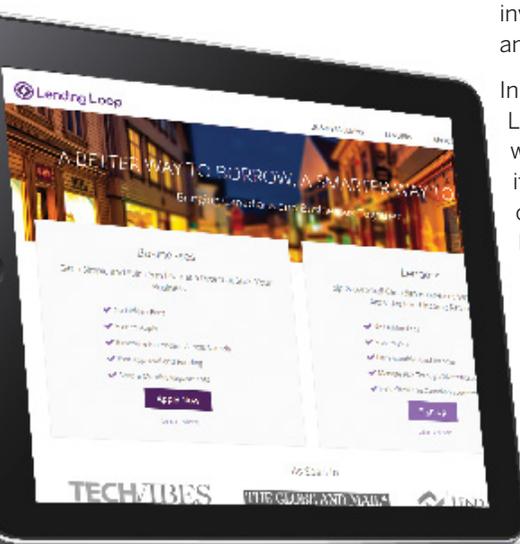


InstituteBuzz
By **Eric A. Morse**
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Entrepreneurs drive change in business models across industries and markets and it is true here at Western University as well. We have witnessed the first wave of entrepreneurship at the University, where we struggled in business schools to carve out curricular time to build programs and experiences for our students. We still have work to do in this regard but over the past 20 years we have, generally speaking, earned the respect of our colleagues, created innovative curriculum and meaningful experiences for our students.

The second wave is upon us and this wave is already in full curl at some institutions. We believe the second wave is about creating pathways to practice for our students and embedding these pathways in self-reinforcing communities of entrepreneurial thinkers. We are working with the broader University to develop a community of entrepreneurial-minded people that can work together to create ideas that excite the world. Our students will benefit from world-class ideas, and expertise residing and developed across Western and the University will benefit from the world-class capability and expertise at the Ivey Business School.

A community doesn't just appear and it certainly isn't created over night. To build the type of community that we can all be proud of will take all of our efforts. We are creating different pathways for our students to help them bridge to venture more effectively. We are doing this through an accelerator for high potential VC seeking ventures, through virtual accelerators for social enterprises like that being run by Sarah Richard, MBA '15, and for students with great teams and good ideas that just don't fit the VC paradigm. To build a successful ecosystem, we also need to build pathways for our alumni and friends to join and help us build our community. If you are interested in helping build that community, please give us a call or drop us an email.



Great minds think alike

Pastoll and Vlaar had a few early excursions into entrepreneurship at school. Vlaar imported and sold skateboarding decks from the U.S. and built a virtual gaming farm where upgraded characters were sold off to gamers on eBay. Pastoll successfully ran a convenience store at school, where buying supplies through wholesale distributors allowed him to tack on generous margins.

Arriving at Ivey, Vlaar signed up to join the entrepreneurial program, the New Venture Project (NVP). "I took it very seriously with my group. We had the goal to start a business, not just coming up with a business plan," said Vlaar. During NVP, Vlaar and his team created an app named Tokynn that allowed users to send gifts and other goods to each other. Importantly, it gave him the confidence he needed to start something right out of school.

Pastoll took a different route but connected with Vlaar through a mutual friend to take part in the 2014 Vancouver CaseIT competition. They hit it off immediately, so much so that they decided to test out some ideas for a new venture. During a visit to the UK, Pastoll came across Funding Circle, a peer-to-peer lending service which allows savers to lend money directly to small and medium sized businesses. Having discussed the idea with Vlaar, they decided to research its viability in Canada during the tail-end of their HBA.

In April of 2014, they registered Lending Loop and went onto work in other industries, which certainly helped - not only with finances - in building networks and resources that would be key to pulling off their venture. Vlaar connected with Paul Hayman, HBA '81, who he met during Hayman's stint as an Executive Entrepreneur-in-Residence at Ivey. He

helped with a number of Hayman's ventures, evaluating new opportunities, conducting research and due diligence. He was involved with new venture research and even helped with the early development of Hayman's latest venture, FiveWalls.ca.

Pastoll landed a job at a software consultancy firm that needed help through a management

transition. The job brought him in close proximity with the programmers and technical experts that would be vital to launching their venture. With regular work by day and plotting Lending Loop by night, there was no work/life balance for either of them; still, they say it was the most productive time of their lives.

Breaking new ground

All those extra hours were essential in launching Lending Loop, which was far more complicated than anything they had undertaken before.

"Right from the get go, we immediately realized that there would be regulatory challenges operating this type of business model," said Pastoll. They started working with lawyers with expertise in securities law and spent both time and money to fit Lending Loop into Canada's legal framework. The crux of the problem was whether this type of offering would be considered a "security" or not.

"We don't think it should technically be considered a security because if I lend you money directly that's not a security," reiterated Pastoll.

"Some days we didn't know if we could ever get this off the ground and other days we didn't know if we could recruit people," said Vlaar. They spent a long time recruiting their first few employees as they wanted to make sure they got the right people. What Vlaar terms as the general aspects of running a business, like learning to delegate, are challenges they are continuing to master with help from mentors and advisors.

Key learnings for young entrepreneurs

Pastoll and Vlaar had a few words for their fellow Ivey students: "Try to get something off the ground. Always have a side project, whether it's a blog or an app. There's a lot of students who have that entrepreneurial spirit but that don't have the self-confidence to try something. Once they have that, they'll have the ability to go out and start a real company," said Vlaar.

"Dream big but act small. Have that vision for what you want to create... but do small things to get you there," said Pastoll. "For us we're obviously in the financial markets now and trying to take on the big five banks in Canada, which sounds crazy to say - but it's just making sure you do the little things along the way to get you there."



Cato Pastoll, HBA '14 (left) and Brandon Vlaar, HBA '14

"Cato and I never really operated a business from inception to revenue generating and there's a lot of challenges that come along with that; once you add on the legal challenges, I guess we have gone through a fair bit of adversity," said Vlaar.

Successful Negotiations in the Family Business

Young workers often find it stressful to negotiate with their bosses, particularly when the subject is compensation and responsibility. Few of us have the total self-confidence required to effectively advocate for ourselves and as a result, job satisfaction suffers when employees feel undervalued by the boss. But what if the boss is mom or dad?

Children begin life in a totally dependent relationship with their parents and while they grow to lead independent lives in adulthood those dependency feelings often creep back in. Now imagine how joining the family business can effectively “double down” on those feelings as the young adults carry a new financial and professional dependency with the near-the-surface-feelings of emotional dependency. Asking for that raise can seem so ungrateful after all the support parents have provided. Asking for more responsibility risks reminders of all those childhood moments when the parents were let down. Negotiating any business issue with a family member is a real challenge.

At Ivey’s Business Families Centre we have enjoyed supporting a pilot project of the SW Ontario Chapter of the Canadian Associate of Family Enterprise (CAFE) to nurture next generation family business leaders. In this year long program, young future leaders gather as a peer group to learn, share best practices and develop professionally in a comfortable environment outside of mom or dad’s business. One workshop session is hosted by Ivey Associate Professor Ann Frost who teaches negotiation to MBA students and executives. Frost shares her insights on how next generation leaders can have more meaningful negotiations with family members and avoid common pitfalls.



“Respect is Free” so give it often as mutual respect leads to successful negotiations.
~ Associate Professor Ann Frost

Frost highlights three essential thoughts that foster greater intergenerational communication. First, make sure you know what you really want out of the conversation. Do you just want to be heard or are you asking for something to change or are you looking for some advice? Clearly thinking through what the goal of your conversation is allows both parties to manage expectations better as each will have a sense of the desired outcome.

Second, put yourself in mom or dad’s shoes and consider what they need. While this is difficult for young people to do it is important to remember the business may in fact be an incredibly significant part of your parents’ lives (another baby?) and they in fact get a lot from the relationship. If you are asking for more control/responsibility, first think through and talk about what the parents need from the business for their fulfillment as this may explain a lot of their behaviours and responses to the next generations’ inquiries.

Third, create the condition to have a successful discussion. This means look for timing and places that will have a low stress atmosphere and then budget the time required for thoughtful interaction. Next Gens shouldn’t be forcing timelines, but

rather trying to get to the parameters of a solution so that both sides can have room to maneuver, but within an agreed range of time.

Whatever agreements are reached, Frost reminds us to put into each agreement that all parties are prepared to renegotiate at some point. This is critical as the stages of one’s life have a way of dramatically altering perspectives and family members need to signal that we are all prepared to re-visit our deals.

Mom and dad are undoubtedly proud of their kids and want them to succeed and flourish. Children must also be mindful to be proud of what their parents created in the business and be open with that pride. As Frost always stresses, “Respect is Free” so give it often as mutual respect leads to successful negotiations.



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ENTREPRENEURPROFILE

While Sarah Richard, MBA '15, had dabbled with the idea of being an entrepreneur during her MBA at the Ivey Business School, she couldn't have imagined that she would be helping launch a business only a week after graduating.



Richard was visiting Ivey to speak to a group of eager New Venture Project (NVP) students and a local women's leadership network, Lady Leaders. "I snuck into Ivey under the guise of wanting to be a consultant," says Richard, who had worked for a major insurance firm prior to Ivey. She knew right from the start that the corporate route was not for her but her initial interests in the nonprofit sector waned the more she learned about the industry.

"I was drawn to the social enterprise space. Fundraising in the non-profit sector is such a challenge, and I was really drawn to the idea of achieving similar objectives through revenue, not fundraising," said Richard. While admitting that there are many ways to skin a cat, entrepreneurship caught her eye.

"Business is what lifts people out of poverty and improves people's lives... people being industrious and entrepreneurial is what moves things forward," said Richard. She

took that attitude into her New Venture Project, where her team decided to take on a project that could change people's lives. They worked on a solution to stop people texting and driving, by offering a carrot rather than a stick. By providing incentives to drivers for not texting or using their phone, their product would offer insurance discounts and other prizes.

Having presented in front of a panel of experienced judges and entrepreneurs at the NVP Presentations, they were floored by the reactions. "I think you are going to kick yourself when someone else gets rich from this idea and it's not you," said one of the judges. "That was the moment that it occurred to us that maybe we had come up with something that people actually wanted," exclaimed Richard.

While the idea connected with Andreas Souvaliotis, a social entrepreneur and longtime Entrepreneur-in-Residence for Ivey's NVP Program, he spotted Richard's entrepreneurial potential. "Speaking with

him after the presentation, he said, 'You know what, love your idea but I would really like you to come and help me launch my business,'" said Richard.

A week after graduating, Richard was helping launch a company with Souvaliotis and two other people, which has since grown to a team of nine. At Social Change Rewards, they are partnering with major loyalty programs to reward people for being healthier and are gearing up to launch their mobile app later this year. "The app will motivate you do things like exercise, eat more vegetables and get your flu shot, by rewarding you with points you already collect," said Richard.

"When you're building a business, nothing that you're building has existed before, you're making everything up as you go. Everyday I come up with a new process," said Richard who can't imagine going back to a 9-to-5 job.

"I think there's a huge opportunity with this generation that is more focused on things like the triple bottom line and Corporate Social Responsibility and Venture Capital firms and Investors are paying attention because there's a whole new slew of investment funds that are beginning to target socially conscious businesses," said Richard.

She still reconnects with what she learned at Ivey, particularly the NVP template or 9-step process. "I work with amazingly talented people but nobody has all the answers out there. What you're learning at Ivey is a framework to take to the real world and Larry (Plummer)'s job is to make sure you know that structure well."

She encouraged students to take full advantage of all the resources and people available at Ivey. "You are not always going to have access to someone who knows how to create a financial model and who will do it for free because they are your friend or classmate. This is the place! If you are going to do it, you have everything you need at your fingertips right here," said Richard.