

Meet Froda, the unique morph between a tech company and a bank

As part of our quick founder questions series - or QFQs - we spoke to Olle Lundin, CEO and Co-Founder of Froda, about SME financing, providing a solution to the financing gap and scaling.

Temps de lecture : minute

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What was the catalyst for launching Froda?

It all started at the SSE Business Lab at the Stockholm School of Economics. My co-founders and I realised that difficulty in accessing financing was one of the main concerns for us and other students.

This sparked the thought that if we, who fit the mould, struggled, imagine the challenges faced by those who don't fit the mould. We also thought that the lending process was both flawed and unnecessarily slow and believed that there must be a better and more efficient way of doing things. So that's kind of where it started. We wanted to help as many SMEs as possible get access to capital to finance their ideas, and we wanted to revolutionise the lending process.

Tell me about the business - what it is, what it aims to achieve, who you work with, how you reach customers and so on?

SME financing is still very much at the core of what we do, but Froda has

evolved into more than just a lender over the years. We currently have two business units, our traditional lending and our embedded financing platform. The end customer will always be the businesses that borrow money, but we approach this differently across our two business units.

With our traditional offering, we offer a fully digital financing product direct-to-business owners under our native Froda brand. With our embedded offering, Froda Embedded, we are essentially selling access to our lending platform to partners. They can then either integrate our white-label financing product into their own offering or access our funding to provide financing to their customers. The partner serves as a distributor that sells our Froda solution under their brand. We also have a high-yield savings offering targeting individual customers in Sweden, which is how we access the funds we then lend to our business customers.

How has the business evolved since its launch? When was this?

We launched Froda back in 2015 and a lot has happened since then. We have achieved over 100% year-over-year growth, became profitable in year four (although we have taken a strategic decision to not go for profit since 2020 in order to invest and grow the business), and become one of Sweden's highest valued unlisted companies. It's quite incredible to think of how much we've grown over the years. We have gone from a five-person team, operating out of a small one-room office, to being a team of over 100 people.

We have gone from selling our services through a simple one-field web form, managing our loan book in Excel, and having to borrow money ourselves to be able to lend it out. To operate in what could be described as a morph between a tech company and a bank, with sophisticated technology, and our own core banking platform.

Tell us about the working culture at Froda

I'd say that the most accurate way of describing our working culture is that it's entrepreneurial. We have always wanted to be nimble in our approach and try to keep the startup mentality and not get caught up in internal processes or hierarchies that delay our ability to innovate.

Of course, we've had to apply process and structure as we've grown, but at its core, we have managed to stay true to our identity as we've grown. Besides the strictly work-related I'd say that the word that best describes the culture at Froda is that it's 'sound'. We have always taken pride in being a place with a good work-life balance, where people enjoy going to work, and that we have managed to achieve that is something that I'm profoundly proud of.

How are you funded?

In the beginning, we were fully reliant on private investors to get up and running and to fund our operation as well as our lending. We knew that borrowing money to fund a lending business wasn't sustainable long term in terms of funding cost so we worked almost immediately to secure a license from the Swedish financial supervisory authority to carry deposits.

We became a credit institution in 2020, and since then our lending has been primarily funded by the public through our savings accounts. On the operations side of things, we've accumulated around \$35 million in investments from venture capital and family offices over the years. Since inception, we have only spent about \$5 million of the capital we raised. We have strived to be self-reliant and build a profitable business, and use external capital only as a means to enhance our growth capability.

What has been your biggest challenge so far and how have you overcome this?

It has been a bit of everything. Building a business within the financial sector is complex. On one side you have all the regulatory requirements, data access, and technological infrastructure. On the other side, you have a very diverse audience that is used to doing things in a certain way.

There's a lot of legacy within the financial industry and challenging it is not the easiest thing to do, and neither is trying to change customer behavior. There are more than 1,2 million SMEs only in Sweden and no two businesses are alike. We put an emphasis on building an offering with flexibility, speed, and user friendliness in order to create something that spoke to the vast majority of them.

Many customers were still skeptical about a fully digital business loan even though Sweden is quite digitally mature. But industry legacy kind of played to our advantage there. As the SME segment hadn't been served by traditional institutions, they were more inclined to try alternative solutions. And as soon as they did, they realised how painless Froda was in comparison. Open banking and fintech evolution have also been important to our success.

We wouldn't have been able to build the platform that we've built without integrating external components and our credit assessments rely on retrieving data from other parties within the financial industry.

How does Froda answer an unmet need?

SMEs have been an unprioritised and underserved group in terms of financing for a long time. Only in Europe, the SME financing gap is estimated to be €400 billion and globally it's estimated to exceed \$5 trillion. There's no question that we're addressing a previously unmet

need, but we still have a long way to go before solving it.

That's also one of the reasons why we're putting an emphasis on Froda Embedded. It allows us to reach more SMEs and provide a solution to the financing gap much faster than we would have been able to do if we were to expand and scale only through our own brand.

What's in store for the future?

It's exciting times at Froda at the moment with a lot of things in the works. We're going to continue on the path we've set out and accelerate access to financing for SMEs both through our native product and through Froda Embedded.

On the native front, the focus is going to be to continue building the most business-owner-friendly financing product on the market. That means doing foundational work as well as improvements and fine-tuning of everything from design and functionality to automation and credit models.

With Froda Embedded we're only scratching the surface of its potential. We're working on bringing new innovations to the market this year as well as continuously improving our existing platform.

All in all, there are a lot of things going on and we're in dialogue with several potential partners across the continent. The demand for Froda Embedded shouldn't come as a surprise if you look at the SME financing gap from a business perspective. It provides a multi-billion euro opportunity in terms of interest income that's currently going to waste.

We are offering a fast, efficient, and reliable way for banks, fintechs, and business service providers alike to cut a piece of that pie. There's no secret that getting an incumbent bank to buy into our concept would be a

big deal for us. It would be a feather in our cap in terms of proof of concept that would propel the number of SMEs we reach while also making it easier for us to attract new partners. And for each partner we onboard, and every market we enter, financing becomes more accessible for more SMEs. It's a win-win-win situation for all parties.

What one piece of advice would you give other founders or future founders?

Build a solid foundation before trying to scale for the sake of scaling.

We have seen companies with great ideas, that had raised plenty of capital, and scaled a lot, fall like a house of cards because they went all out on the expansion path before building a solid business foundation. And even though the venture capital market will turn upwards again eventually.

We're probably not going to go back to the time when capital was ever available and optimistic forecasts were enough to get investors on board. So focus on building a solid, functional business from the start, and be strategic and thorough in your pursuit of growth. It might lead to you having to give up some nice-to-haves and success articles early on, but as a reward, you will have a business that stands the test of time.

And finally, a more personal question! What's your daily routine and the rules you're living by at the moment?

As a CEO my days tend to be quite hectic as I juggle several responsibilities and go from meeting to meeting. I always try to take some time out of each day to check in with people at the office and also to try and walk the walk in terms of work-life balance. I have two children at

home, so naturally, a lot of time outside of work is spent with the family. In terms of routines I always make sure to get a couple of hours by myself each day to do anything from woodworking to baking or working out. In terms of rules, I have only one - keep singular focus on things that matter and things you can affect. The rest is a distraction.

Olle Lundin is the CEO and Co-Founder of *Froda*.

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