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CEO interview: Finding the optimal funding approach for a startup in Korea

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Jong-ik Kwon (31), the CEO of iPetBrand, is an entrepreneur with a solid academic background. The idea for his current venture, iPetBrand, stemmed from Mr. Kwon’s love for animals and people who care about animals. iPetBrand seeks to integrate the vet network with the value chain, and Mr. Kwon’s vision is to make iPetBrand the most recognized brand in pet care. To fulfill this, he needed funding. We talked to Mr. Kwon about his fundraising experiences.

Finding the optimal funding approach for a startup in Korea: An interview with iPetBrand CEO Jong-ik Kwon

Jong-ik Kwon (31), the CEO of iPetBrand, is an entrepreneur with a solid academic background. He attended the Veterinary School at Seoul National University and obtained his veterinarian’s license in 2010. Despite his academic background, he is no stranger to entrepreneurship. He has done everything from importing and selling deer velvet nutrients for dogs to running a successful pet café. Mr. Kwon has even had experience in selling used cars to Japan.

The idea for his current venture, iPetBrand, stemmed from Mr. Kwon’s love for animals and people who care about animals. Currently, vets are only involved in about 20-30% of products and services related to animals, and Mr. Kwon felt this could be changed, providing benefits both for the pet owners and the well-being of pets. Part of his new business model was incorporating a creation of shared value (CSV) element. In addition, his experience of managing a pet café provided a good overall view of the distribution channels in the pet industry. iPetBrand seeks to integrate the vet network with the value chain, and Mr. Kwon’s

vision is to make iPetBrand the most recognized brand in pet care. To fulfill this, he needed funding. We talked to Mr. Kwon about his fundraising experiences.

Reddal: Finding financing for your venture was important to get started. How did you fund your company in its initial phase?

Mr. Kwon: The first major investment I received was from the Institution for Young Generation Start-ups. This is an organization established by the government run Small and Medium Business Corporation (SBC) for young entrepreneurs. I received 42 million Won (about 29k€) in cash and 18 million Won (about 12k€) in other benefits such as advisory sessions and office space on the terms that I would run the company in the Small Business Training Institute (SBTI) for a year. The money I received was just enough to finish the development of my application.

Reddal: You considered external funding from the start. Can you describe your decision making process as you compared various alternatives?

Mr. Kwon: There really was not much of a strategic approach in timing investments and funding. I had my idea which I wanted to bring to life, and was set on utilizing whatever resources were made available to me. Surprisingly enough, the Korean government had several government programs available that provide favorable funding for young entrepreneurs. The Institution for Young Generation Startups, for example, has a budget of up to 20 billion Won (about 14M€) for young CEO’s and covers up to 70% of the total working expenses of the entrepreneur’s project.

Reddal: After the initial funding round to develop your application, how did you secure the second round of financing for the commercialization phase?

Mr. Kwon: I have the feeling that for most startups, there is no such thing as enough cash. When my iPetBrand application was launched I got over 30 000 downloads in 1,5 months. I quickly needed funds to take my app to the next level. Through past entrepreneurial experience, I knew there is something called a technology guarantee that is issued by the Korea Technology Finance Corporation (the Korean acronym is KIBO). I thought this might be a good alternative for me.

Reddal: Can you tell us a bit more about KIBO and the financing instruments they offer?

Mr. Kwon: KIBO is a governmental organization that issues guarantees to lenders on behalf of the entrepreneur. An entrepreneur must formally apply and meet the eligibility requirements of KIBO to receive this type of guarantee. It is basically an outside-in credit rating of the company, including both tangible and intangible assets. If one qualifies, one can get a loan at the lowest market rate. Entrepreneurs are eligible to borrow at least 40 million Won (about 28k€) and, in case of bankruptcy, are only responsible for 10% of the borrowed amount. It is an extremely useful source of early stage financing for entrepreneurs.

Reddal: Did you consider other sources of funding besides SBC and KIBO?

Mr. Kwon: I came across an article about POSCO Venture Partners in the local newspaper and was intrigued to research their enterprise funding model a bit more.

Reddal: Major conglomerates in Korea seem to be increasingly active in offering corporate venture capital. What was your experience with POSCO Venture Partners, and what were the key differences compared to your earlier experience of government funding?

Mr. Kwon: In my case it all started from a business competition organized by POSCO. The POSCO New Venture Contest is an idea contest for students, professionals, and startups to present their innovative business ideas targeting future growth markets. POSCO positions itself as both a business incubator and an angel investor for companies that they believe will change the future. To me, one of the key selling points about the program was its detailed explanation of the support system for each phase of the incubation period.

Reddal: What expectations did you have for the POSCO program?

Mr. Kwon: I knew from the start that corporate investors are more likely to exert pressure on important decision making processes and, of course, take a significant portion of equity. On the other hand, their program materials mentioned industry mentors and advisors that could understand my product and, more importantly, could take an interest in my vision of iPetBrand. A bank loan really does not offer that personal interest and support. I made the assumption that an enterprise incubation fund like POSCO's would provide me with such individuals.

Reddal: Were your expectations met?

Mr. Kwon: I was disappointed when I found out that my assigned mentors lacked the understanding of different industries and were not able to provide insightful guidance for my product and service. I also felt unhappy about the valuation process, which seemed to me was made without proper due diligence. Somehow I initially got the understanding that my company could be funded up to 300 million Won (about 210k€), which I felt was reasonable. The actual numbers presented was – to be honest – quite shocking to me: 60 million Won (about 41k€)! The mismatch between expectations and reality was unfortunate, and I think this could have been managed better.

Reddal: Can you describe the valuation process with POSCO? Any lessons learned that you would like to share?

Mr. Kwon: First of all, POSCO seemed to have pre-determined the companies it wanted to invest in early on in the program. The companies that participated in the second term were given valuations with a 20%+ discount rate using the DCF (discounted cash flow) method. This discount rate was significantly higher than the rates given to the companies in the first term, reducing the valuations. I learned the hard way that a quick cash infusion is not necessarily the best way to grow my company. Finding a financier who takes an interest in my product, and can support me in a stage-wise approach seems a more optimal way.

Reddal: Venture capitalists often use very high discount rates. What were the key metrics

that justified these rates in your case?

Mr. Kwon: The driving factor was revenue generation and resulting profits. What myself and others failed to do was to show better evidence of the monetization capabilities of our applications. Many of these venture funds will not invest solely based on the user base or download counts. I had only shown them revenue potential, so maybe the profit potential was not properly described.

Reddal: Retrospectively, what is your view on the optimal time to seek venture capital or corporate venture capital funding?

Mr. Kwon: If you can sustain your business without external funding, then that is fine. However, if there is either no sustainable cash flow or a steep increase in fixed costs, you should prepare yourself to find financing sources that best suit your business demands for the specific stage you are in. Receiving a large external investment from a well-known venture capital firm early on could be good for PR but not necessarily the best for your business in the long run. By focusing on sales growth and finding the right partners early on you can avoid being forced to take money from an investor that does not really suit you.

Reddal: Do you have further lessons learned that you want to share with other startup entrepreneurs?

Mr. Kwon: For app developers, I think it is very important to assess the margin per user that the app can generate. People tend to focus on the number of downloads and make a big plan of that, but what in the end matters is profitability. Even if the app is downloaded a million times, it would not generate money if it costs more to manage the app than it earns. Monetization is a core element of the strategy and overall business planning for startups.

Reddal: Any last thoughts?

Mr. Kwon: For me personally, an insight has been that there is no such thing as a one-man startup. If your company can be run by one person alone, it is obvious that you are improvising the business plan around your current business situation. Every startup requires basic business processes, from marketing to operations, and these should be planned ahead of time. Pre-budgeting for salaries of a solid team to push your product or service is a must!

Reddal: Thank you for your time, Mr. Kwon. We appreciate your insights very much and feel confident that many entrepreneurs can benefit from the experiences you have shared with us. Best of luck with iPetBrand!

Mr. Kwon: Thank you.

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iPetBrand is one of the many upcoming Korean startups, led by well educated people with previous experience. While the support network offered by the Korean government and venture capitalists provides many opportunities, there is still room for integrating these

further into a seamless support system. A key element is, however, the enthusiasm of the entrepreneurs themselves. This seems to be on a good track, at least based on this interview. As these entrepreneurs learn the ins and outs of business building and financing, Korea will have a good growth platform for the future.