PubPol 750.008 – FinTech Entrepreneurship

Instructor: Adrienne Harris, Towsley Policymaker in Residence
adrienah@umich.edu
734-615-8684 (desk)
5223 Weill (office location)
1230 Weill (class location)

Instructor Office Hours: By appointment; will be held virtually

Course Term: 13-week session
Wednesdays, 4:00 pm – 5:20 pm
September 2, 2020 – December 2, 2020

Course Description: Total global fintech investment increased from $50.8 billion in 2017 to a full $111.8 billion in 2018, according to KPMG’s The Pulse of Fintech, and there are no signs that growth in this sector will slow down. What are the latest trends in fintech and how do innovators, entrepreneurs, and other stakeholders see the space developing? Beyond the general trends, how do fintech entrepreneurs identify and assess opportunities in fintech? And what does the lifecycle of a fintech company – from ideation, to investment, to growth and maybe acquisition – look like? This course will provide a strong foundation for those with a working level of knowledge in fintech and who are interested in starting or investing in fintech companies.

Course Objectives:
1. Understanding the genesis and evolution of fintech as part of the financial services industry.
2. Gain foundational understanding of how to create a fintech company, including finding an idea, fundraising and how investors assess fintech companies, working with regulators, developing a go-to-market strategy, working with incumbents, and growing the business.

Critical Questions:
- How does one know if s/he wants to be a founder or join a start-up early? What can I expect from founding or working at an early-stage company?
- How do founders come up with an idea for a fintech company? Do I have to be a financial services veteran?
- How do founders raise funds for a company? How do investors assess fintech companies?
- How do fintech start-ups navigate regulatory constraints or ambiguity?
- How do founders develop a go-to-market strategy? What if that strategy fails?
- How do fintech companies work with incumbent financial services institutions – sell to, partner with, get acquired?
- Once the business is launched, how do founders grow the company?
Course Grading: This class requires three graded assignments – a go-to-market memo/deck, a solo or group pitch, and a next steps memo, each of which is explained in further detail below. Class participation is also part of your grade. Late work needs to be negotiated before the day the assignment is due. I am always willing to negotiate a new deadline if you have a reasonable reason for needing an extension. However, assignments that are turned in late without prior discussion and approval will be docked one grade step for every day they are late.

Class participation and engagement 20%
Go-to-Market Memo/Deck  30%
Pitch 35%
Accompanying Next Steps Memo 15%

100%

Class Participation and Engagement: Participation will be an important part of your grade. Half of the grade for this component will account for in-person attendance (any unexcused absence without prior notification will result in a loss of points allocated for attendance in each week), with the other half based on my assessment of individual engagement. Such engagement can take many forms, including but not limited to, in-class participation with questions and discussion, attendance at office hours or by appointment if necessary, or virtually via Canvas or emails with me regarding questions, thoughts, ideas related to all things fintech.

- The Most Interesting Thing in FinTech: As part of class participation, you should be reading fintech news between classes and sending along to me, before each class, the most interesting article, fact, insight, video or other tidbit you’ve seen during the week.

- A Note on Readings: Most of the required readings are free/available online. If the readings are behind a paywall, I will post a PDF in Canvas ahead of class. The required readings are short and intended to be quick reads. For those who desire more information on a particular topic, I’ve included additional optional readings.

Go-to-Market Memo/Deck: One two- to three-page memo (single-spaced) or PowerPoint deck, before the start of class on Wednesday, October 14, 2020. This memo/deck should outline your fintech startup idea, the ways in which you’ve vetted the idea, and your go-to-market plan. The memo should describe the issue/problem your company is intended to remedy, how it will solve the problem, who your target customers will be, and what the competition looks like, among other considerations. I will be evaluating the thoroughness of your thinking, your ability to spot issues to which you do not yet know the answer, and your writing skills.

Presentation: One ten-minute presentation (7 minutes of presentation and 3 minutes of Q&A), delivered orally in-class on December 2, 2020 along with a PowerPoint presentation. Students will present in groups their business idea to their colleagues. The presentation should include an overview of products/services to be offered, an overview of competition, the go-to-market plan, how they plan to fundraise and their plan for growth. Like the memo/deck, you’ll be graded on the thoroughness of your research, and the quality of the group’s oral and PowerPoint presentations.
Next Steps Memo: A one- to two-page paper, due before the start of class on December 2, 2020, in which you’ll outline the next steps you’ll take in building your start-up idea, including any questions you need answered or issues you need resolved to move forward. This memo should essentially pick up where your pitch left off. The two products should be thought of as one piece of work.
FORD SCHOOL OF PUBLIC POLICY INCLUSIVITY STATEMENT

Members of the Ford School community represent a rich variety of backgrounds and perspectives. We are committed to providing an atmosphere for learning that respects diversity. While working together to build this community we ask all members to:

- share their unique experiences, values and beliefs
- be open to the views of others
- honor the uniqueness of their colleagues
- appreciate the opportunity that we have to learn from each other in this community
- value one another’s opinions and communicate in a respectful manner
- keep confidential discussions that the community has of a personal (or professional) nature
- use this opportunity together to discuss ways in which we can create an inclusive environment in Ford classes and across the UM community

Accommodations for Students with Disabilities: If you believe you need an accommodation for a disability, please let your instructor know at your earliest convenience. Some aspects of courses may be modified to facilitate your participation and progress. As soon as you make your instructor aware of your needs, they can work with the Services for Students with Disabilities (SSD) office to help determine appropriate academic accommodations. Any information you provide will be treated as private and confidential.

Student Mental Health and Well-Being Resources: The University of Michigan is committed to advancing the mental health and wellbeing of its students. We acknowledge that a variety of issues, such as strained relationships, increased anxiety, alcohol/drug problems, and depression, directly impacts students’ academic performance. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. For help, contact Counseling and Psychological Services (CAPS) and/or University Health Service (UHS). For a listing of other mental health resources available on and off campus, visit: http://umich.edu/~mhealth/

Ford School Public Health Protection Policy: In order to participate in any in-person aspects of this course, including meeting with other students to study or work on a team project, you must follow all safety measures mandated by the State of Michigan, the University of Michigan and the Ford School. This includes maintaining physical distancing of six feet from others and properly wearing a face covering at all times while on campus. In addition, it is expected that you will protect and enhance the health of everyone in the Ford School community by staying home and following self-isolation guidelines if you are experiencing any symptoms of COVID-19, have been exposed to someone with COVID-19, are awaiting a test result, or have engaged in a higher-exposure activity such a flying or attending an indoor social gathering of more than 10 people. If you are unable or unwilling to adhere to all prescribed safety measures, you will be accommodated through remote access to all aspects of this course. Additional information on public health safety measures is described in the Wolverine Culture of Care and the University’s Face Covering Policy for COVID-19.
Class Expectations.

- **Punctuality.** We will start and end each session on time. You should be in the classroom before 4:00PM ET each session.

- **Technology.** Please do not check your cell phone or email during class, and you refrain from recording (audio or visual) the content of the class or posting (Twitter, LinkedIn, FB, Snap, etc.) about the class. These requirements preserve the integrity of the discussion (allowing us to have a candid conversation) and eliminate distractions. Note-taking via laptop is appropriate but please refrain from sending text or instant messages, tweets, social media posting, or video or audio recording of classroom dialogue.

- **Academic misconduct**, including cheating, misrepresenting one's own work, taking credit for the work of others without acknowledgement and without appropriate authorization, and the fabrication of information will not be tolerated. Any form of misconduct will be taken very seriously. Academic dishonesty also includes using something you produced for another class for an assignment without permission. Information regarding academic dishonesty, plagiarism (which includes copying and pasting text from primary documents without proper citation and formatting), and misconduct and their consequences is available at: http://www.rackham.umich.edu/current-students/policies/academic-policies...

Please review additional information and policies regarding academic expectations and resources at the Ford School of Public Policy at this link: http://fordschool.umich.edu/academics/expectations
SYLLABUS

Class #1: Sept. 2, 2020    Introduction to Financial Services and FinTech

Summary:  This first class is designed to give you a basic overview of financial services and fintech, including specific verticals within the industries and the various stakeholder groups. We’ll explore the history and rise of fintech and some of the key questions and themes it has raised for financial services broadly. The goal of this class is to provide a foundation for the rest of the course so that we all have a common understanding and vocabulary on which to build.

Key Questions:
- Why is the subject of fintech even important?
- What are the main areas of financial services?
- What is fintech? How did it start?
- Who are the main stakeholders in financial services and fintech? What are their roles?
- What are the key issues/areas of contention/debates/policy and/or business problems in fintech today?

Readings:
- Forbes Fintech50 2019.
- Fortune, Why Every Company Wants to Look Like A Bank Without Becoming One, Maria Aspen (Nov. 18, 2019)
- Barron’s, So Much for Big Tech’s Banking Aspirations, Jack Hough (Nov. 18, 2019)

Additional (optional):
- U.S. Department of the Treasury, A Financial System That Creates Economic Opportunities Nonbank Financials, Fintech, and Innovation (July 2018)
- Paul Sullivan, What are fintechs and how can they help small business? (2020).
- Ellen Rosen, Trying to correct banking’s racial imbalance (2020).
• Nik Milanovic, *Now more than ever we need fintechs to lead on consumer transparency* (2020).
• Mercedes Ruehl, *Pandemic opens the door to a new fintech era in Asia* (2020).

Class #2: Sept. 9, 2020   The FinTech Darlings & Incumbent Responses

**Summary:** This class is designed to give you a first-hand look at some of the most popular and well-funded fintech innovations on the market, along with a view of any incumbent responses.

**Key Questions:**
• What makes a fintech innovation fundable or popular with customers?
• What services do fintechs offer that incumbents don’t? Or how are they differentiated from incumbent products and services?
• How have incumbents responded to fintech? Has this response been “enough”?

**Readings:**
• CFSI FinLab Winners
• Ron Shevlin, Forbes, *The Real Story Behind the PNC Venmo Clash* (Dec. 18, 2019)
• Martin Arnold, FT, *Five Ways Banks Are Responding to FinTech Threat* (Nov. 11, 2018)

**FinTech Darlings:**
• Jeff Kauflin, Forbes, *The 11 Biggest FinTechs in America 2019* (Feb. 4, 2019) (and articles listed at bottom)
• **Alice** – benefits
• **Petal** – credit cards
• **Digit** – savings
• **Robinhood** – investing
• **Acorns** – savings and investing
• “Challenger Banks”: **Chime**, **Monzo**, **Revolut** – banking
• **Ripple** – currency
• **Plaid** – aggregator
• **Nova Credit** – CRA
• **Even** – income smoothing
• **SoFi** – lending
• **Policy Genius** – insurance
• **Hippo** – homeowners insurance
• **Lemonade** – renters insurance
• **Remitly** and **TransferWise** – remittances
• **OpenDoor** – “iBuyer”
• **Earnin** – income smoothing
• **Blend** – mortgage underwriting

**Additional (optional):**

**Class #3: Sept. 16, 2020  Ideation**

**Summary:** People often say that entrepreneurship is about solving a problem. But how does one determine which problem to solve and the best method for solving it? What if other people are trying to solve it as well? If you think you have an entrepreneurial instinct, but don’t yet have an idea, this class will help you begin the creative process. If you already have an idea, this class will help you begin to finetune it.

**Key Questions:**
- How do I come up with an idea for a fintech startup?
- What if I have an idea but don’t know how to develop it?
- What if other people are already working on the problem I want to solve?
- What if I don’t have financial services or startup experience?

Please read the provided readings, and also so some thinking about and some research on entrepreneurs you admire and how they come up with their biggest idea(s). Please also come to class prepared to talk about how and when ideas (whether related to a startup or not) come to you.

**Readings:**
- *Starting a Business for This 1 Reason Will Lead to Success*, Inc., Colleen DeBaise (Feb. 6, 2018)
- *10 Traits All Successful Entrepreneurs Share*, Entrepreneur Magazine, Thomas Smale (March 20, 2019)
- *In Her New MasterClass, Self-Made Billionaire Sara Blakely Shares 7 Remarkable Tips for Turning Any Idea Into a Successful Company*, Inc., Carmine Gallo (Nov. 19, 2019)
- *Spanx founder Sara Blakely says sticking with this daily habit is how she gets her best ideas*, CNBC, Courtney Connelly (May 17, 2018)
Class #4: Sept. 23, 2020    The Business Plan & Go-to-Market Strategy

Summary: A good idea will only get you so far. You also need to understand the business case for your idea – in other words, how will you launch, grow and make money. This class is designed to help you develop a business plan, think through product-market fit, and develop a go-to-market strategy.

Key Questions:
- How do I know if there is a need for my product(s)/service(s), and whether it will make money? How do I assess product-market fit?
- How do I launch my company?
- How do I pressure test my idea?
- How do I put my idea into a presentation format?

Readings:
- Oleksii Kholodenko, Your guide to starting a fintech company (2019).
- Paloma Cantero Gomez, How to get started with a business plan (2019).
- Dennis Fois, Three mistakes startup leaders make when determining product-market and go-to-market fit (2020).
- Inbound marketing for tech companies (2020).
Additional (optional):

- Alex Lazarow, *Venture Capital has a lot to learn from Fintech: data driven, new products, and more access to a broader set of companies* (2020).

**Class #5: Sept. 30, 2020  Pitching to Investors**

**Summary:**
Now that you have a pressure-tested idea and an initial strategy, you’ll need funding. There are a variety of ways to fund your start-up. This class is designed to teach you about a variety of funding options and how to prepare yourself and your idea to secure funding.

**Key Questions:**
- What are the different ways in which I can fund my idea and how do I assess them?
- How do I prepare to pitch to investors?
- What do investors look for in deciding to make an investment?

**Guest Speaker:** To be confirmed

**Readings:**
- Chapter 2, *Venture Deals*, Brad Feld & Jason Mendelson

**Additional (optional):**
- Isabel Woodford, *These are the pitch decks which helped two fintech raise $34m amid the coronavirus pandemic* (2020).
- *How to pitch to investors in 10 minutes and get funded* (2019).
- Richard Harroch, *15 expert tips for startups seeking angel or seed financing* (2019).
- *Here are the most active fintech investors since 2019* (2020).

**Class #6: Oct. 7, 2020: Funding Rounds & Understanding Term Sheets**

**Summary:**
If your pitches are successful, your lead investor will present you with a term-sheet. This class will teach you how to decipher a negotiate a term sheet. During this class we’ll also discuss how funding continues as your business grows.
Key Questions:
- What is a term sheet? How should I interpret and negotiate it?
- Can I/How do I prioritize investors?
- How do I think about later rounds?

Guest Speaker: To be confirmed

Readings:
- Alejandro Cremades, Term Sheet: Here is Everything Entrepreneurs Must Know When Fundraising (2018).
- What’s in a term sheet? 13 key terms every startup founder should know (2018).
- Deepak Malhotra, How to negotiate with VCs (2013).

Additional (optional):
- Paul Sweeney, Understanding Venture Capital Term Sheets (2014).
- The Simple Guide to VCs, Angels, and Funding Rounds (2020).
- Matthew Bartus, Negotiating term sheets: focus on what’s important (2020).


Summary: The goal of this class is to dive deeper into some of the key questions for stakeholders in financial services and fintech. Each of these questions has serious implications for private and public sector actors, as well as for individuals. The issues we’ll explore here by no means represent an exhaustive list. They are, however, the issues that one would most commonly hear discussed among experts in the field. It is therefore important to begin understanding these issues to better understand the current and future landscape of financial services and fintech, and how these issue will impact your business.

Readings:
- Prepared Remarks of CFPB Director Richard Cordray at Money 20/20 (Oct. 2017)
- CFSI, Consumer Data Sharing Principles: A Brief on the Framework for Industry-Wide Collaboration
- Chris Skinner, The secret to success with customer data
- Big data, financial services and privacy. The Economist, February 9, 2017.
- Center for Financial Services Innovation, US Financial Health Pulse Baseline Report

Additional (optional):
- Micah Altman, Alexandra Wood, David O’Brien, Urs Gasser, Practical Approaches to Big Data
Class #8: Oct. 21, 2020       Building a Team

Summary: This class will walk you through how to think about building your team, including who you need and when, and how to screen and hire candidates. Perhaps more importantly, this course will teach you about assessing which skills and experiences you need to hire — either in house or as outside advisors — at which stages of your company. We’ll also discuss Boards of Directors and Advisors for the company.

Key Questions:
- How do you assess the skills and experience you need at each stage of your company?
- How do you screen and hire candidates?
- How should you think about building a board?
- How do you recruit and secure advisors? How do you leverage their expertise and networks?

Readings:
- Nikos Moraitakis, Getting from employee 5 to 50: the hiring guide every startup should read (2014).
- How to build a great board of directors for your startup (2020).
- Katie Elizabeth, How to recruit top advisors for your startup based on my experience as a female founder (2016).
- Brian Nordli, How to make diversity a hiring priority at the startup stage (2020).

Additional (optional):
- Amy Lewin, How to build a brilliant team: hiring advice for startups (2019).
- Florida Susan Moghimi, Startup founders should build diverse teams from day one, Here’s how (2019).
- Leigh Sevin, How to Build a Network of Advisors for your Startup (2016).
- Serenity Gibbons, How to make your startup team more diverse (2019).
Class #9: Oct. 28, 2020  Managing Burn

Summary: By the time you’ve raised money and started to hire a team, you’re already burning money. You’re on a clock to execute on your objectives and prove your idea before you have to go back to the markets for additional funding or produce enough revenue that you don’t have to fundraise again. So how do you set a budget and manage your burn?

Key Questions:
- What is a reasonable burn rate for various stage startups?
- How many months of runway should you keep on your balance sheet?

Readings:
- Mark Suster, What is the right burn rate at a startup company? (2014).
- Pierre Francois, Survival metrics: getting to grips with the startup burn rate (2019).
- Marissa Lowman, 7 ways to keep your burn rate low (2019).

Additional (optional):
- Startup Burn Rate Calculator
- Matthew Toren, 3 important burn rate considerations for every business (2015).

Class #10: Nov. 4, 2020  Managing a Board

Summary: As a founder, your Board is incredibly important to the success of your company. Often, investors will take seats on the Board as part of the terms of their investment. So how to you manage the Board to maximize the chances of the company’s success?

Key Questions:
- What are the functions of the Board?
- Can you choose Board members?
- Should you have an independent Board member?
- How should you use Board meetings?
- How should you prepare for Board meetings?
- How should you communicate with your Board members and for what purposes?

Readings:
- Mark Suster, When to set up a board of directors for your startup (and what it should look like) (2019).
- Mark Suster, How to Be a Good Board Member (2019).
• Mark Suster, Board Observers (2019).
• Mark Suster, High Functioning Boards (2019).
• Mark Suster, How to Prepare for a Board Meeting (2019).
• Stephanie Creary, Mary-Hunter McDonnell, Sakshi Ghai & Jared Scruggs, When and Why Diversity Improves your Board’s Performance (2019).

Additional (optional):
• Mark Suster, How to run an effective networking dinner for your board (2019).
• Mark Suster, Managing Board Distractions (2019).

Class #11: Nov. 11, 2020  Growth & Exits

Summary: Now that your company is up and running, you have to grow it. Growth can occur organically or inorganically (i.e. via acquisition or mergers). We’ll discuss the various routes to growth, how to assess them and execute on a strategy once you’ve decided on one. We’ll finish the class talking about exits – going public, bring bought, or continuing to grow as a private company.

Key Questions:
• How can I grow my company?
• What are reasonable assumptions for organic growth?
• How do I think about inorganic growth, especially if I’m not a finance professional or lawyer?
• What is an exit? Should I think about exit while I’m building the company, and if so, how?

Guest Speaker: To be confirmed

Readings:
• David Gomez, How to quickly yet effectively grow your startup business (2019).
• Ryan Robinson, How to set realistic sales goals for growing your startup (2017).
• Jerry Vance, Organic vs. inorganic growth – and becoming the acquisition target (2020).
• Benjamin Joffe & Cyril Ebersweiler, What every startup founder should know about exits (2018).
• Christian Muntean, Why an exit strategy is your most important strategy for growth (2020).

Additional (optional):
• Ankit Sharma, 5 tips for startups to drive massive organic growth (2020).
• SEO for startups: how to grow your organic traffic fast (2020).
• Troy Adkins, How can a company resist a hostile takeover? (2019).
• Chris Myers, When it comes to developing an exit strategy, it pays to be creative (2018).
• Greg Arnette, Organic growth vs. acquisitions: which makes more sense? (2019).
Class #12: Nov. 18, 2020  A Bit About Regulation & Students’ Choice of Topic

Summary: We’ll spend a few minutes in this class talking about regulation and how to navigate it in your fintech startups. The remainder of this class will be devoted to a topic or topics of the students. Inevitably there are some topics that the students wish to discuss further from the previous sessions, or some topic that was not covered. This class part will be devoted to that subject or subjects.

** Thanksgiving Recess **

FINAL CLASS - Class #13: Dec. 2, 2020  Presentations

Summary: Classmates will pitch their fintech startups to their classmates, including the discussion of opening issues in their thinking about the business.

Objectives:
- Enhance presentation and pitching skills, including answering tough questions.

Readings: None. Presentations and reflection papers due.