# Airbase Memo

April 2021

airbase

# Introduction

**Every business spends money.** A simple way to classify all the money spent by a business is into payroll and non-payroll dollars. Payroll spend is managed by the well-established category of payroll software. The non-payroll dollars include marketing spend, software subscriptions, T&E, employee engagement, and the number of other areas in which a typical business spends money. In mid-market businesses,[1] managing the non-payroll dollars is incredibly painful because of the siloed and fragmented nature of the tools used. This is the problem Airbase solves.

**Airbase replaces multiple categories of tools** typically used by mid-market businesses to manage non-payroll spend, with a single comprehensive platform:

**Request and Approval Workflows:**
These happen via email, Slack, JIRA, Google Forms or through dedicated tools like Procurify

**Corporate Cards:**
Amex, banks (and newer offerings like Brex) are popular options

**Expense reimbursement:**
Expensify is a popular option

**Accounts Payable / Bill payments:**
Bill.com is the leading player in the mid-market

The ecosystem of tools to solve non-payroll spend management evolved this way primarily because they are either front ends to specific payment rails used by businesses to pay their vendors (corporate cards for Visa / Mastercard / Amex, and Bill.com for ACH / check), or a specific business process (expense reimbursement).

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[1] *Our definition of a mid-market business is one with 50-1000 employees.*

No finance and accounting team - who are the primary stakeholders in the spend management process in mid-market companies - would design a siloed and fragmented system like this. They just don't think about the lifecycle of spending this way.

**In practice, the finance and accounting team care about three simple steps:**

1. Make sure there is a good process to control spend before it happens.

2. Pay the vendor once it's approved internally. The rails over which money flows are largely irrelevant and an implementation detail.

3. Correctly categorize and record it in the general ledger (GL), ideally in a completely automated way.

**But, what they have to deal with in the traditional siloed system is:**

1. An archaic and periodic monthly close process which is an enormous amount of low-value, manual work that involves downloading data from each system, categorizing it, recording it in the general ledger, chasing people throughout the company for additional information about how to categorize specific transactions, dealing with a deluge of expense reports and reconciling the flow of money through multiple systems. Simply put, a large part of the work undertaken by finance and accounting teams reflects the limitations of tools they are forced to use.

2. A lack of high-quality control and visibility into how money is spent by decision-makers across the business because they don't have access to all the systems where the money is spent, and they have to wait for 2-3 weeks after the end of every month for the information to be collated into the general ledger as part of the monthly close process. Most businesses are not enabled to make good decisions based on real-time spend-related data.

> **Airbase is a reimagining, from first principles, how spend management should work in any business.** We believe that our approach will be the default expectation of the market over the coming years, and the current fragmented approach will disappear as the market is educated about this step-change in improvement in a foundational business process.

# Why hasn't anybody solved this problem so far?

The primary reason the landscape of tools has remained in silos until recently is due to the lack of maturity of the underlying payment infrastructure. It's important to understand that solving the spend management problem the right way involves deeply integrating workflow-driven software and payments into a single product.

**Historically, tools in this domain have fallen into three buckets:**

- Standalone software workflows that don't touch the money: examples include homegrown pre-approval workflows using emails, Slack, Google Forms etc., or more formal systems like Procurify, or the PO module in an ERP system like NetSuite.

- Payment systems that address one need without any support for associated workflows in the business: corporate cards are the prime example of this, where the only interface to internal business processes is a downloadable statement at the end of the month.

- Workflow-focused systems that integrate with the related payment rails: for example, Bill.com for ACH / check payments.

**Over the last 3 years, two big changes have made it easier (*not easy!*) to build a system that integrates the software workflows with payments:**

1. The maturity of developer-friendly card issuing platforms and program managers. Marqeta, Stripe, Galileo, and Adyen all have good offerings at this point.

2. Banks have gotten better at allowing startups and earlier stage companies to integrate into their systems to provide the necessary building blocks to hold and move money.

This has allowed anyone who deeply understands the lifecycle of spend in a business - starting with collaboration between team members as they decide how to spend budgets, paying vendors across multiple payment methods, and accounting workflows for how it's all categorized and recorded correctly in the general ledger - to bring the software workflows and payments together in a way that very closely maps to the actual workflows that happen inside a business.

# Product Principles

Please watch a **demo of the Airbase platform** to get a better sense of why taking a first-principles approach to solving the entire spend management problem fundamentally changes spend culture in a business, and leads to significant time and money savings

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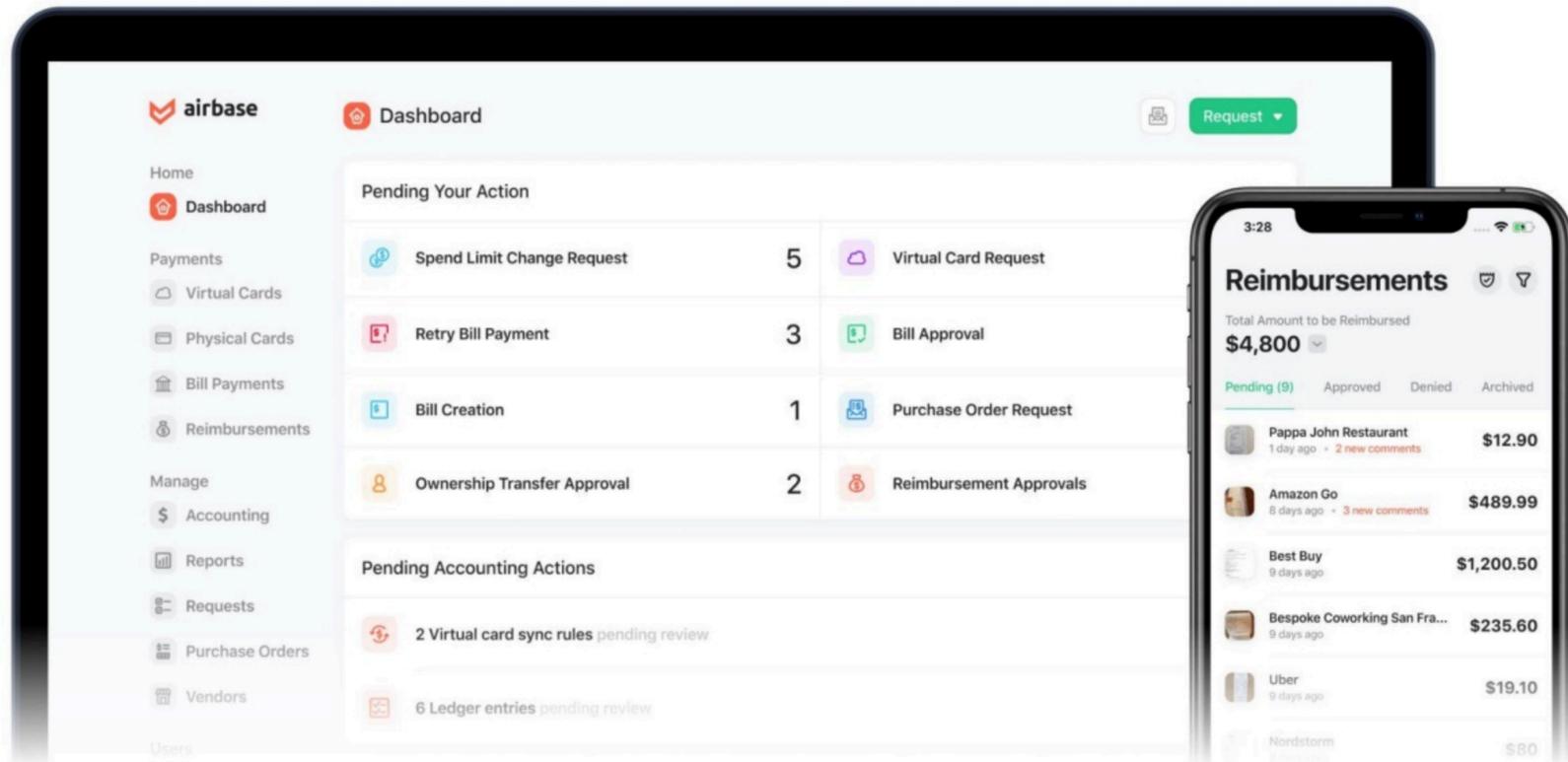


In addition to familiarizing yourself with how the product works, it's important to understand how we approach the product development process and the principles that guide us.

## We're a workflow-driven software product first and a fintech company second

We believe that almost all of the value we can offer to our customers comes from the workflows enabled by our product. Payments are an important enabler, but just that - an enabler. We never forget that we're not solving a payments problem for our customers, but workflow, process, and information exchange problems in their business. As far as we and our customers are concerned, payments are a utility, and the value is in the deep software layer above it. Of course, we make money from financial services as a side-effect of the usage of our platform, which is great, but, the value perceived by customers is primarily in the workflows, and not from moving money from point A to B.

## Offer a best in class solution across every product area

We fundamentally reject the rationalization that siloed products exist because they are "best of breed" and platforms can't truly solve the whole problem. We're committed to delivering the breadth and depth of the solution that allows mid-market companies to manage 100% of their non-payroll spend in one platform without any compromises when they move from point solutions. We've been able to do that rapidly because when you approach spend management in a holistic way, it allows you to reuse a lot of the common platform elements (E.g. pre-approval workflows, and the infrastructure to sync transactions to multiple general ledgers). An integrated platform also allows us to innovate in completely new ways - like assigning vendor specific virtual cards to purchase orders, and limiting card spend in a dynamic way based on spend happening across a number of different vendors.

## Deeply understand the work of finance and accounting teams

We care a lot about helping finance and accounting teams avoid low-value and manual work so they can focus on being strategic business partners. That can only happen if our platform shows a deep understanding of every step of the work they do. Finance and accounting is a profession of details and correctness, and our customers love us because they see that our team is full of the same DNA, and that we really understand the work they do every day.

*** Ask us to dig into this if it does not come through in the product demo.*

## High-quality design and UX are table stakes

Finance tools are notorious for having terrible design and UX. Most of the established players are 15 years or older, and they don't particularly care about UX. So, we don't have a very high bar to meet. But, the fact that we value high-quality design and UX has turned out to be a big differentiator for us. We're committed to investing in this partly for pride, but more importantly, unlike other systems, pretty much every employee of a company interacts with our platform and they use well-designed business and personal software all day long in other areas. That's the bar to which we hold ourselves.

## The Airbase system has a large surface area

We offer multiple established categories of products in one platform. We have made a significant investment in R&D and will continue to do so. We currently have 54 people on our product development

team, which is more than half the team and we won't stop hiring in that area for the foreseeable future. We're convinced that our thesis that customers value breadth and depth in one platform has been validated, and we're going to double down on that approach to keep our lead in the market.

# Competition & Our Strategy

**We classify competitors into two categories:**

- ○ Established, legacy players: nine times out of ten, prospects we engage with are using point solutions like Bill.com, Expensify and a corporate card. This status quo approach to solving the problem is the primary competition we face in the market, and most of our sales effort is spent showing prospects that there is a much better way to solve the spend management problem.

- ○ Emerging players: These include Brex, Divvy, Ramp and Teampay.

We've always taken the approach that the perceived value is in the software, and the financial services / payments aspect of the platform is an important enabler. So, we've built a robust software platform and charge a subscription fee for it. That has been a contrarian opinion over the last few years, with more than a billion dollars invested behind the alternate approach followed by Brex, Divvy and Ramp of giving away the product for free and making money from interchange. We believe that only making money from interchange forces a very corporate card centric view of the problem.

Of course, this is such a large market that multiple valuable companies with differing approaches will be created. But, it's important to understand how our strategy differs from the other players.

**Our primary goal is to own the spend related workflows in the business**

We think the most valuable problem to be solved in this space is the unification of multiple siloed tools into a single spend management platform. Owning all the non-payroll spend related workflows allows us to charge subscription fees, which makes for a good business. But, orchestrating the flow of money opens up a significant opportunity to generate financial services revenue (interchange, FX conversion, interest income on float), and that makes it a great business. Right now, we're at a X/Y split in favor of subscription revenue,

but we expect financial services revenue to grow faster as transaction volume increases across payment methods on the platform. That makes it a no-brainer for us to continue investing deeply in owning the spend related workflows.

## We occupy very strategic real estate in a business

Airbase is the system of record which contains every detail of the lifecycle of how a business spends money. This is very sticky and strategic real estate and valuable on its own, but it allows us to target a number of large adjacent opportunities in the future. Refer to the last section for how we think about this.

## Corporate cards are a commodity product

With the availability of mature card issuing platforms, anybody who can plausibly offer a corporate card will do so. There is a glut of corporate card offerings in the market and this will only continue. We believe that trying to acquire customers on the promise of rewards and size of the line of credit is a race to the bottom. Yes, there is an opportunity to go head-to-head against the legacy card issuers like Amex and the banks with a better product, rewards and line of credit, take some market share and build a valuable business. But, we don't believe that's the best way to maximize long term value creation. Our opinion is that corporate cards of the future are primarily workflow-driven software products where the real value is in deeply understanding the entire lifecycle of how businesses spend money on cards and to support that in software workflows. Also, corporate card spend is just one piece of the larger problem finance and accounting teams have to solve.

## Focusing on the software and partnering with banks is a better long-term strategy

We issue our own cards today. But, we started with that approach because there was no other way to showcase our view that a corporate card system is a software product. We have no interest in competing in the corporate card wars long term and have built the system to issue either our own cards, or integrate with other card issuers. We think it's better to focus on the software layer and partner with the incumbent card issuers like the banks with large commercial card portfolios. By partnering with us, they can offer a high-quality card spend management experience to their customers, while keeping at bay the emerging competition from players like Brex. We are going to launch our integrated offering with XYZ mid 2021, and are in advanced discussions with ABC.