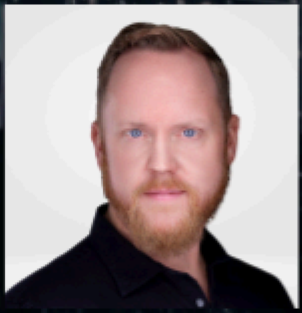
diffusetap
Virtual Event Series

How to Farm a Founder

Guest Speaker:

Jiho Kang
Partner
Antler

Hosts:



Kenny Estes
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DiffuseTap: How to Farm a Founder

Last time on DiffuseTap, Jiho Kang, Partner at Antler, talked to us about Antler's unique, high-pressure approach to raising founders in their startup program, how "Kimchi arbitrage" became a big deal in South Korea, and how long it usually takes for a founder to come up with a groundbreaking idea.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)… straight from your armchair like a boss.

Meet the Speaker

JIHO KANG is an investor, entrepreneur, and product designer with experience across Seoul and Silicon Valley. Having worked 20+ years in consumer web, mobile, and web3, the 5-time startup founder has raised funds from top global VC firms like Y Combinator and 500 Startups. He is currently a Partner at Antler, a global startup generator and early-stage VC firm in South Korea.

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KENNY ESTES: Jiho, my good man. Thank you so much for joining us. It is 12:15 AM his time, so that is serious dedication. Do you want to tell the good folks a little bit about your background and what you're up to now over at Antler?

JIHO KANG: Hi, thanks for having me. I was in the breakout room and I took up the entire time just giving the long version of introducing myself. So, I'll give you the short version. I was born in South Korea, I grew up in the US when I was much younger, probably until I was 13. I moved back to Korea, finished school.

Since I was in high school, I believe I wanted to build my own business in tech. I was talking about how Mark Zuckerberg is probably a similar age as I am, so I thought to myself, he can do it. How hard can it be? Very hard. After that, I failed at four different startups.

Before I hit 27, I decided I needed to get a real job because I had accumulated a fair amount of credit card debt. So, I decided to work for one of the subsidiaries of SK Telecom, which is South Korea's largest telco, building new businesses that allowed them to charge more data fees from everyone who is on their plans.

After that, I moved over to work for Coupang in the early days before they got their Softbank investment. For people that don't know, Coupang was founded in 2010 and is now South Korea's largest e-commerce company. They went public on NASDAQ a couple of years ago for about 40 billion.

KENNY: This was all happening in South Korea, is that right?

JIHO: Yeah, exactly. After Coupang, I was probably in my early 30s. By then, I decided I probably want to start in another business before I get married or actually decide to settle down. So, that's what I did. I started a new company called Soomgo, which is a professional services marketplace. You can hire a plumber, you can hire someone to fix a roof and hire a mover, you can hire a cleaner, or whatever. That went pretty well.

That company was a YC portfolio company that went through series A, B, and C. Now it's worth a little under a quarter billion dollars. I exited early to get into web3 and crypto around 2018. We were building a stable coin based on fiat South Korean Won. We went to Binance for an investment and they said "Hey, we want to enter the South Korean market," so we ended up selling that company.

And then, we rebranded our stable token called KRWb (KRW on the Blockchain) to Binance KRW, or Binance Korean Won. Binance had to exit from South Korea within a year and half, because Binance was also under heavy scrutiny from the South Korean regulators. It didn't work out. Now, I've been at Antler since 2021. Antler is a VC, but we invest a little differently. We don't go out looking for good deals to invest in.

We invest in tech startups, but we build our deals in-house. What that means is, if you think about any wildly successful company, it's normally started by one person or a group of people that decide that they want to quit their jobs and start a business. For instance, Jeff Bezos used to work in investment banking.

In '94, he quit, moved to Seattle, and said, hey, I'm going to build a virtual bookstore, and then blew up. So, what we want to do is invite the next generation of unicorn founders right at the beginning, right when they decide, "I want to quit my job and build a business."

We run these cohorts in Korea. We run them twice a year, six months for each program. And we say, "Hey, if you want to start a business, you can come build it with us. We will coach you, provide you with the networks, and provide you with a pool of different founders that you can network with. And after 10 weeks, we will decide whether or not we want to invest in you or not.

During the 10 weeks, you have to work with us to come up with a business that we think is investable, and you also have to bring a team that is actually able to execute on that plan. That's when we invest. We invest based on our 10-week observations of the founders that we have in our program. It's a full time program.

My office is located right next to the open office space where the founders are at. In Korea, we've been doing this for about two years. Globally, we've been doing it since 2018. We've invested in over 400 different startups globally at the very inception stage. And again, we are able to invest at the lowest valuations independent of any other investor, and our job is to basically make sure that these companies don't die and survive to make it to the next round so they can do their seed rounds series A and onward.

KENNY: I love that. It's like a hybrid accelerator venture investor timeframe, which makes total sense. Also, I love the fact that you're rocking wine right now. It's night there, so that's brilliant. Before we get into Antler and that model, and the pros and cons of it, I am going to chalk us into a complete tangent. Do you know anything about the Kimchi trade?

JIHO: Yeah. I was wondering if you wanted to talk about that. I did some Kimchi arb trading when I was working at Soomgo. This was just on the side completely. I didn't know it would be that big of a deal. Another YC founder that was in my network told me, "Hey, did you know that the price of ETH is 10% more expensive in Korea than it is anywhere in the world?" I did not know that. I had no idea why that was happening, but we started small and got big later.

KENNY: Why was that actually happening? Because I like to explore the inefficiencies of crypto, because there's certainly no lack of it.

JIHO: There is a really simple explanation for why that happens. In South Korea, crypto was pumping immensely. It was very hyped during 2017. When I first encountered the spread, there was huge demand for crypto within South Korea. And at the time, in 2017, the South Korean crypto exchanges were infinitely more efficient in terms of processing Fiat than any other exchange in the world.

Korea has a very well-built domestic financial infrastructure. Back in the day, even if I wanted to wire money into an exchange, I just got on my phone, tapped a couple of buttons, and the money would be on the exchange within 30 seconds. If I want to withdraw that cash, I would be able to withdraw that cash within 30 seconds as well. It was really easy.

I mean, the friction level for people getting into crypto trading was very, very low. There was a huge surge in demand for crypto within South Korea. So, what happens if you run out of crypto? There is probably an amount of crypto that each exchange is holding for trading, and then you have other people bringing in their own cryptos.

But what if you run out of Bitcoin and ETH to sell? Then, you get an inflated price because there's not enough supply. There is not an authority. So, what do you do? You have to go out and get some, which, in Korea's case you have to buy from overseas. Now, how do you buy from overseas? You have to be able to send money.

It's actually easy to send money into Korea, but it's really difficult to send money outside of Korea. It's not impossible to send money out of Korea, it just requires a lot of paperwork. And you have to jump through a lot of hoops if you want to wire massive amounts of money out of the country.

And even if you have a lot of arbitrage traders that are doing that 24/7, the banks only wire money when the FX markets are open, which is between 10am and 2pm. If the banks are not wiring money, then you just have super inflated prices, because there's just too much demand and not enough supply.

KENNY: Makes sense. And this is a bit of history right now as arbitrage is largely gone, right?

JIHO: I mean, it's still coming back. I've checked and I think the highest I've seen it recently is at 8%. Now I think it's down to 2 or 3%.

KENNY: Wow, that's crazy. That's six or seven years running at this point, and we still see this arbitrage. Turns out financial services and traditional systems are very inefficient. Let's actually talk about Antler for a little bit. Can you frame this a little bit? I know from talking to you and being in Korea, where I met you in the first place, Antler is kind of a big deal. How big is Antler? How many geographies are you in? And how many portfolio companies are you going through? All that stuff.

JIHO: I think we've gotten big recently since it started in Singapore. The founders are European though. Most of the founders are from Rocket Internet. If you don't know Rocket Internet, it's a Europe-based firm. It's a company builder, basically.

KENNY: Is it a company builder or a company copier?

JIHO: It's a company builder-copier. So if Rocket Internet says, “Hey, I think X business is going to be the next big thing in Southeast Asia”, then they would go out and hire MBA grads, or they would go out and hire the best consultants from McKinsey, or they would hire X founders, give them a lot of money and say, “Hey, this is the business. This is the problem that you need to solve. Here's the money. Go solve it.”

It's different from what Antler is doing now because, from how I understand it, Rocket Internet usually takes 80% of the equity when they do something like this. But they hedge all the risks for the founders because they get a really fat salary doing this. Some equity, but not as much as a founder that would be just hustling in their garage, for instance.

The founders exited a couple of unicorns, and then they're in Singapore because they were sent to Singapore to build out Zalora and Lazada, which are big e-commerce companies in SEA. Again, I don't know the exact history, but I'm just trying to think what was going on in their minds. Rocket Internet is able to bring a bunch of talented people together, give them a bunch of money and have them build unicorns.

But how can you apply that to venture capital? And venture capital is really hard to break into. Again, Antler is a really young firm. They've only started investing since 2018. Now, we have a portfolio of over 1,200.

KENNY: You have a portfolio of over 1,200 companies in six years?

JIHO: In six years across the globe. We are the number one investor in the seed and angel stage, according to PitchBook. That's more than Plug and Play. That's more than 500 Startups. That's more than YC. And it's hard to get into VC because if you're a good VC, you probably hustled for many years, like 10, 20, or even 40 years to build up your reputation.

If you have that reputation, the best founders always come to you first because they know that money is a commodity, but the value thatVCs provide, which have these good reputations, is not. So, as an early VC, or as a VC that is just getting started, how do you compete with that?

Well, the founders have to build up something. They need to build a team. They need to have a product in the business, obviously. And they need to have some proof that it works, and that there is actually demand in the market, and there's actually a chance that they are going to get big.

So, what are these founders doing before they're at a stage where they can go to Y Combinator, or Sequoia, or before they can go to Elon Musk and say, “Hey, I'm building the next best thing you can invest into”?

Well, every big startup starts with the founder or founders deciding to quit their jobs, and to start building a business, right? But if you think about it, what do you do on the first day? You quit your job yesterday, and now you’re a startup founder. You're at your desk. What am I supposed to be doing?

KENNY: You write your business plan, right? The pro forma has to be correct. I believe that's the main goal.

JIHO: Exactly. That's all you have to do. And then, you build it, you exit, and then you throw it out. Just kidding. But again, every business is different depending on what industry and what market you're in. Each founder's approach is different when they're actually building something out.

It's really hard to say, hey, this is the right way to do it. You can't just say, here are the checkmarks that you have to mark off. And if you mark off all these checkmarks, then you're going to one day become a successful entrepreneur. It doesn't really work that way. You have to fumble around.

You have to decide who you are going to meet up with. You are going to pitch your idea to tens of hundreds of people, and then people are going to give you feedback and say, that idea sucks. Then you go back to your desk and say, what do I need to do? Do I pivot a little? Do I pivot a lot? Do I scrape everything and start from the beginning?You go through this process.

We've looked at the data, and we've seen that founders usually take about a year and a half to two years before they're at a level where they actually have something solid, and they know what they're talking about. And when they're in front of institutional investors, the institutional investors will say, “This sounds risky, but there might be a chance.”

Founders go through this process of pitching their idea, getting feedback from people saying it sucks, going back to their desk reiterating, and then just failing constantly until they're at a point where they're not at that point. Every founder goes through this. And no one invests in that stage. The only people that do invest in that stage are angel investors.

And the reason the angel investors invest into those types of founders is because they probably personally know that founder. You might not fully understand what they're trying to build, but you're willing to trust that person because he's a hustler, and he has done really great things.

And even if you don't necessarily understand what they're trying to build 100%, you will still put your trust in that person and maybe give them 50k. That is Angel investing. But how do you do that institutionally? How do you do that systematically? So, Antler came up with an idea: Let's bring in the most talented people in-house into a physical room.

In Korea, we look at 1,500 applications for each cohort. That's 3,000 applications a year. And then, we will select about 160 of them from the 3,000 applications. We get the most talented people together in a room, and then tell them, “Hey, I don't know who you are. But based on our interview, I think you're pretty smart, and I think you might be able to come up with a good business and bring people together to form a good team. But I haven't seen it yet, so I want to see that happen. You have 10 weeks to do it.”

One of the criteria to get into our programs is you have to quit your job. You're all in on this program. It runs 24/7. Again, my office is located right next to where the founders share office spaces. When I go into the office in the morning, I say hi to the founders. We tell them, “You have 10 weeks. Here's a bunch of smart people that we've hand-picked. We've interviewed all of you. Pitch me an idea in 10 weeks that is worth investment."

How do you do that? Every week, it's a process of just giving them really harsh feedback. Just telling them their idea sucks. Every week, they basically do two hackathons, and they're free to hook up with different people to form different teams for each hackathon. Or you can choose to do different hackathons together with the same team.

But if you're doing two hackathons a week, that's eight in a month, and that's 16 hackathons over the course of two months. And, again, what we do is we continuously critique them. We tell them why something won't work. We tell them where the blind spots might be.

We just continue to poke holes in their ideas until they actually know what they're doing. We've seen that it usually takes about six or seven weeks until they get to the point where they're actually able to defend against all of the holes that we're trying to poke into, whatever idea that they're building. And then they go out, meet the customers. And then by week 10, they come back and say, "I have five customers, and I made 5,000 bucks in the past two weeks."

That's when we decide whether or not we want to invest in them or not. The investment decision is not only based on what idea they're pitching, and maybe they have some traction, but we also look at the process.

We look at how they were when they first came into the cohort, who they hooked up with, what ideas they fished, and what ideas they scrapped. If they got into a fight with someone, how did they deal with that? If they had a really hard problem, whether they cracked, and what was the process of approaching that and how they solved it.

We look at all that. I think 50% of our investment decisions factor off of that type of quality of data. We're making our investments on trusting the person, even though we haven't been friends for a long time. We try to create that type of confidence. I love this program.

KENNY: That is fascinating. I'm going to say this glibly, but I almost mean it as a compliment. It's almost a boiler room for startups, right? Whatever the super high pressure, you've got to deliver very quickly. You're not going to have a 100% success rate, but even a 10% success rate of the people coming out of it will make Antler overall very successful, and those individual founders very successful from going through that type of environment. When there is that much pressure, you get to know each other very, very well.

You're six years old, right? But I've got to imagine that the value of that network, the Antler network, and the founders who have gone through it and have that shared experience is absolutely enormous.

JIHO: There is no time to waste. There is no time for bullshit. Because if there are no good teams in a cohort, we will not invest into any one of them. The whole thing is trying to see if we can create some really good deals that we can invest into, if we see that.

I think each cohort has about 30 teams, which, if they all suck, then it means that we didn't do a good job of actually pushing them to the limits and actually building something good. And we have to go back to the drawing board and see if we can do better in the next cohort. But again, the investment isn't guaranteed. The founders coming in have put in a fair amount of risk coming in because they quit their jobs with no income, but they are here to make something happen.

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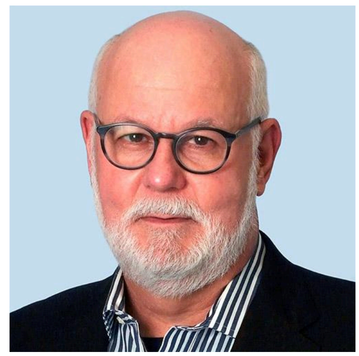

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