

Part One: The Story Behind . . .

CHAPTER 1

WONGA

Errol Damelin hired a creative branding agency to come up with the perfect name for his new website, the money-lending business that we now know as Wonga. It was the type of agency that the Government hired to create the much-derided Olympic logo. It was expensive. It was, Damelin told me when we met a few weeks shy of Wonga's fourth birthday, a mistake.

'The agency sent through long lists of names with endless analysis about each one', he remembers. 'They did a lot of work – but they had to, to justify their fee. Nothing stood out. Then my co-founder and I were talking to friends about the name over drinks one day, and they suggested Wonga. We put it to the branding people, and they sent back a very detailed, rational response about why it was a terrible name. But we loved it – it was short and recognisable.'

'There's so much noise online, from hundreds of thousands of financial sites and businesses. We thought the name Wonga would break through that. So we ignored the experts' advice and went with it.' That, says Damelin, is the entrepreneurial way of doing things: 'you take advice, but are confident in your own decisions.'

It's a strategy that has helped Damelin grow Wonga from an interesting idea – to provide an instant, fully automated lending decision over small, short-term loans online, ensuring that the cash arrived in the successful applicants' bank accounts minutes later – to a business that in 2010 brought in £73 million.

Speed and a willingness to quickly respond to customer demand were crucial, says Damelin, a South African who once worked as an investment banker. He quit the industry after becoming more interested in developing ideas himself, and spent five years building up an online marketplace for the cabling industry before selling it in 2005. Damelin then moved to the US for a year to mull his next big idea.

He thought up 'tons' of other start-up business ideas, before rejecting them all, Damelin reveals. But my request to find out more about them was met with a grin and a shaking head. 'I'm still going to build them one day', he says, ever the serial entrepreneur. But how did Damelin know Wonga was *the one*? 'I talked to friends, family, people I knew from business', he says. 'Of all the ideas I thought of, the idea of instant money, available online 24/7 gained most traction.' The lending industry, he thought, 'was well overdue some disruption.'

The idea

'It was clear that there was already a market for short-term cash', Damelin says, sitting near Wonga's Georgian townhouse headquarters, close to Regents Park. 'People were borrowing from friends, using bank overdrafts or payday loans, or going to doorstep lenders and pawnbrokers. But the question for me was, could we use new technology to do it better? Could we automate money-lending, one of the world's oldest industries? And could we use technology to do it with

more speed and convenience, and build a trustworthy platform and brand?’ The entrepreneur spent 2006 working that out.

He went back to basics. ‘I think most people tend to be too incremental, changing too little, when starting a business’, he says. ‘To create a financial services company, they’d say, “how does Barclays do it? Oh, they’ve got this application form and this process. Let’s do the same, but make our application form green, not red.” Damelin thought everything that existed was ‘too slow, too reliant on a man in a suit looking at someone’s spending and deciding, sometimes quite arbitrarily, whether to lend to them.’

Creating a series of workflows, he broke his idea down into steps. ‘It began with “how do companies make a decision about whether to lend money?”’ Damelin explains. ‘When someone applied, you would have to make a decision using data, so then I thought, “what data do I need, and where can I get it from?” and went from there.’ The entrepreneur arranged meetings with industry experts to learn about the existing technology and retail banking, ‘asking a lot of questions and being generally relentless’, he says.

Concept to reality

The scale and technical know-how required for the lending website led Damelin to seek out a partner. ‘It was too ambitious for me alone’, he says. ‘For a lifestyle business or a copycat idea, one founder is fine – often the economics won’t justify two salaries – but if you want to create a disruptive business – one that changes the industry – you need a partner.’

So Damelin linked up with Jonty Hurwitz, an engineer who had been running a business in the same building as his own a few years earlier. 'Having shared office space with Jonty meant we knew each other well – and trust is important', he explains. 'You want a co-founder who brings something different to the table than you do – whether it's experience, skill, knowledge or even attitude. We spent months prodding the idea, and worked on the brand too – we knew it had to be totally transparent, with no banking jargon. It had to contrast with the big banks, who are totally opaque about how they make their lending decisions and make their money.'

At Wonga, Damelin focused on the commercial side, whilst Hurwitz became chief technology officer. The company put together a board including angel investor Robin Klein, of The Accelerator Group, backer of sites including Graze.com and Tweetdeck, who became Wonga's chairman. Damelin and Hurwitz built a small developer team recruited from their network of techies. Work took place at a serviced office in north London. 'Many start-ups begin at home, but I wanted everyone to be in the same place, sharing learning all the time, and pushing in the same direction', says Damelin.

Wonga developed proprietary technology – it owns thousands of pieces of intellectual property – to check up to 7,500 pieces of information on an applicant before approving a loan. Complex algorithms crunched the data, and the site could then action funds to be transferred into users' bank accounts within 15 minutes. The backend was hugely complex, but the frontend was simple. Wonga developed sliders asking 'how much cash do you want' and 'how long do you want it for'. Applicants could move around the sliding bars, allowing them to see that, for example, borrowing £265 for six days would cost £21.51 in interest and fees. The test site took nine months to build.

Take off

A beta version of Wonga went live in October 2007. 'It was a very soft launch, we simply bought a few Google Adwords to test demand. We didn't want too much volume', says Damelin. 'We had budgeted to do 17 loans in that first month, as we didn't want to get overloaded. But in fact we had four accepted applications on the first day.' The founding team watched over the site like anxious new parents. 'We half expected the system to fall over, though actually it was more robust than we thought.'

The first platform lasted nine months, but after six, the tech team began rebuilding Wonga, creating a second version that was better at sorting data and analysing creditworthiness. It went live in July 2008, and in the 11 months after the revamp, Wonga made 100,000 loans. Revenues in its first 12 months hit £15 million, and the site turned a profit from year one.

Between then and now, little has visually changed on Wonga's homepage – the sliders are still there, the colour scheme is still blue and green. 'Don't obsess over image unless it's critical to the sector you're trying to disrupt', is Damelin's advice.

Wonga's wonga

Money, says Damelin, was never a big problem for Wonga. 'We've always had more demand for funding than we've wanted to take up. We were lucky, I suppose, but mainly it's because the idea was good and the team was backable.' Damelin raised £3 million before starting to build the site. 'A pretty big seed round, but the business was always going to be capital intensive – we needed cash to pay out the loans as well as operate.' The

money came from the venture capital fund Balderton Capital, one of the backers of Lovefilm, where Damelin knew a partner well through networking.

Wonga has since raised a total of £93 million in two further fundraising rounds. Its shareholder register includes Meritech Capital Partners, one of Facebook's backers, Accel Partners and Greylock Partners, the original investors in networking site LinkedIn, and five other VCs. 'Since we fund our own balance sheet, and have to pay out the loans, we didn't want to rely on one source of money', says Damelin.

He warns other wannabe start-ups not to expect too much hands-on help from the VC world. 'Too often people take venture capital money and expect the team there to help them with the details of their business. But VCs can't help find sites or hire staff or make a great product – they're sitting on multiple boards, and that's not their job. There are exceptions, but mostly it's about making introductions or providing access to their network of businesses.'

Making a splash

After interviewing Damelin, I bumped into a friend and told him where I'd been. He instantly screwed up his face: 'That bloody annoying advert!' he exclaimed, before launching into a sing-song of its radio theme tune 'Wonga, Wonga, Wonga . . .' Clearly, the ad did its job. TV and radio advertising was one way that the site made its name. Later, Wonga also paid for free New Year's Eve travel on the London Underground ('previous years had seen NatWest be a sponsor – it was a sign of the new order', says Damelin) and sponsored Blackpool football club in its first season in the Premier League.

Wonga's marketing budget is significant, but Damelin says start-ups on a shoestring budget can still get themselves known. 'The rules of supply and demand dictate that the way established firms are currently marketing will already be expensive', he says. 'As an entrepreneur, you have to be non-traditional. Facing bigger players with bigger budgets, the odds are stacked against you. Identify the people you want to be customers, and go and get them, whether via guerrilla marketing, creating controversy, or making a story. The instinct to do what other companies in the same space are doing is probably the wrong thing to do.'

Wonga was very brand-conscious from the start, hiring a communications director two years before a head of sales, in part because the founders were aware that the site was trading in controversial territory. Financial regulation guidelines demand lenders advertise an annual interest charge and, as a short-term lender, Wonga's APR can be up to 4000%. But Damelin hits back that APR is a 'misleading' comparison for very short-term credit: Wonga's maximum lending period is 30 days, and the interest isn't compounded. Still, Wonga's detractors call it a 'legal loan shark'.

'We realised from the start there was going to be controversy', says Damelin. 'But we had confidence in what we were doing and have always been very keen to talk to anyone who is interested. We were very proactive, going out to do roadshows, speaking to consumer groups, financial regulators, journalists. We wanted to show people why we were different before they jumped to conclusions.'

Today Wonga has provided more than 3.5 million loans, and its revenue soared by 300% between 2009 and 2010. City rumours swirl about a future stock exchange listing and expansion into overseas markets, but Damelin says he's 'not thinking about an exit'.

‘I walk into the Wonga office every day and I feel amazingly proud of it’, he says. ‘A few years ago, it was a pure concept. We made it into something real. There are hundreds of thousands of customers, and people wearing Wonga shirts, Wonga ads on TV and radio, Wonga-sponsored teams at football matches. Something exists that wasn’t there before. When you start a business online and get it right, it can be very financially rewarding. But really, it’s far more than that.’

Fact box: Wonga

Launch: 2007

Revenues: £73m in 2010

Staff: Over 200

Top tip: ‘Be honest with yourself about what you want out of life, how big your idea really is, and the associated effort and personal investment required. That way, you’ll stand a far greater chance of succeeding.’

