

## LESSONS IN ENTREPRENEURSHIP

# The upside of down times

Stuart Read and Robert Wiltbank look at how the credit crisis is helping one company to flourish

### BACK TO BARTER

Judging by news stories of economic collapse and financial meltdown, a casual reader might conclude that society will soon be reduced to only the most primitive trading activity. With high unemployment and blocked credit markets, corporations and banks will not function effectively, and what limited commerce takes place will be conducted between individuals, as was the case in the millennia preceding Adam Smith. Does that sound depressing?

### OLD IDEAS, NEW OPPORTUNITIES

Not to Giles Andrews. He is not a caveman or even a Luddite. But, as managing director and co-founder of Zopa, he is stealing an old idea from our medieval trading ancestors to create a modern business that is flourishing as a result of the current credit crisis. The old idea is person-to-person (with a hip new moniker: P2P) lending.

Zopa, founded in 2005, provides a simple online market to connect individual lenders with other individuals who need money. It works a lot like eBay, in that potential borrowers can post their capital needs, be rated on prior transactions, and, with luck, be funded by one or many people in the Zopa community.

### THE POWER OF PEOPLE

Initial results suggest that Zopa is delivering on the hope. The number of new borrowers in the third quarter of 2008 was up more than 50 per cent on the



Zopa's MD Giles Andrews: creating new ways to deliver finance

second quarter. And what makes Zopa tick is that it's everything a bank is not. Here's how it works:

Say Jamesrw (his Zopa username) is looking for £10,100 to pay off a loan and invest in his advertising consultancy business. He receives money from a large number of people, such as finkerxyz1, who lends £20 at an annual rate of 12 per cent. Finkerxyz1 distributes tiny loans to many individual borrowers, and spreads lending risk across them all.

Andrews knows that most defaults happen on bigger loans, so Zopa limits transactions to £15,000. The default rate is just 0.1 per cent of total loans, which is far less than that for banks.

### THE BUSINESS OF THE SOLUTION

Some people might say that the middle of an economic crisis is not a good time to start a

venture. Yet such venerable companies as Sony and Procter & Gamble were launched in down financial markets. One of the approaches observed in expert entrepreneurs is the ability to invert a problem and imagine how even unpleasant surprises can provide the foundation for new opportunities. In the same way that Andrews is succeeding in the banking industry as the very result of bank failure, crises ranging from energy to malnutrition present opportunities to both make a positive impact and make some money. Which crisis are you going to turn upside down? ●

Stuart Read is professor of marketing, IMD, Lausanne, Switzerland. Robert Wiltbank is assistant professor of strategic management, Willamette University, Oregon



Even unpleasant surprises can provide the foundation for new opportunities